First Gulf Bank
Public Joint Stock Company

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

This is still subject to UAE Central Bank approval

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

FIRST GULF BANK PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of First Gulf Bank PJSC and its subsidiaries (the "Bank"), which comprise the consolidated balance sheet 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 is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Bank and the UAE Commercial Companies Law of 1984 (as amended) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for 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 the 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 the Bank as of 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Bank; proper books of account have been kept by the Bank; and the contents of the Chairman's Report relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the U.A.E. Commercial Companies Law of 1984 (as amended) or the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Ernst & Young

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

29 January 2014
Abu Dhabi

A member firm of Ernst & Young Global Limited

CONSOLIDATED BALANCE SHEET
As at 31 December 2013

	Notes	2013 AED 000	2012 AED 000	2013 US$ 000	2012 US$ 000
Assets					
Cash and balances with Central Banks	3	**15,944,554**	12,844,336	**4,341,017**	3,496,961
Due from banks and financial institutions	25	**22,864,465**	18,329,081	**6,225,011**	4,990,221
Loans and advances	4	**126,941,519**	114,644,479	**34,560,718**	31,212,763
Investments	5	**17,113,420**	17,278,266	**4,659,249**	4,704,129
Investment in associates	6	**147,145**	392,965	**40,061**	106,987
Investment properties	7	**8,044,163**	7,771,812	**2,190,080**	2,115,930
Other assets	8	**3,167,107**	3,147,027	**862,267**	856,800
Property and equipment	9	**809,997**	625,643	**220,527**	170,336
Total assets		**195,032,370**	175,033,609	**53,098,930**	47,654,127
Liabilities					
Due to banks	10	**5,204,642**	3,919,498	**1,417,000**	1,067,111
Customers' deposits	11	**137,953,532**	119,304,634	**37,558,816**	32,481,523
Term loans	12	**11,729,095**	13,400,771	**3,193,328**	3,648,454
Sukuk financing instruments	13	**4,223,950**	4,223,950	**1,150,000**	1,150,000
Other liabilities	14	**4,150,680**	4,321,666	**1,130,053**	1,176,604
Total liabilities		**163,261,899**	145,170,519	**44,449,197**	39,523,692
Equity					
Equity attributable to equity holders of the Bank					
Share capital	16	**3,000,000**	3,000,000	**816,771**	816,771
Capital notes	17	**4,000,000**	4,000,000	**1,089,028**	1,089,028
Legal reserve	18	**8,780,110**	8,780,110	**2,390,446**	2,390,446
Special reserve	18	**1,500,000**	1,262,083	**408,386**	343,612
General reserve	18	**120,000**	120,000	**32,671**	32,671
Revaluation reserve	9	**87,554**	87,554	**23,837**	23,837
Proposed bonus shares	16	**900,000**	-	**245,031**	-
Proposed cash dividends	18	**3,000,000**	2,500,000	**816,771**	680,643
Retained earnings		**9,592,434**	9,227,477	**2,611,607**	2,512,245
Cumulative changes in fair values		**263,999**	393,239	**71,876**	107,061
Foreign currency translation reserve		**(13,149)**	(22,253)	**(3,580)**	(6,059)
		31,230,948	29,348,210	**8,502,844**	7,990,255
Non-controlling interests		**539,523**	514,880	**146,889**	140,180
Total equity		**31,770,471**	29,863,090	**8,649,733**	8,130,435
Total equity and liabilities		**195,032,370**	175,033,609	**53,098,930**	47,654,127

Chairman | Managing Director | Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2013

	Notes	2013 AED 000	2012 AED 000	2013 US$ 000	2012 US$ 000
Interest income and income from Islamic financing	19	**7,868,599**	7,644,488	**2,142,281**	2,081,265
Interest expense and Islamic financing expense	20	**(1,875,037)**	(2,124,104)	**(510,492)**	(578,302)
NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING		**5,993,562**	5,520,384	**1,631,789**	1,502,963
Share of (loss) profit of associates	6	**(1,020)**	43,084	**(278)**	11,730
Other operating income	21	**2,428,019**	1,706,303	**661,045**	464,553
OPERATING INCOME		**8,420,561**	7,269,771	**2,292,556**	1,979,246
General and administrative expenses	22	**(1,766,052)**	(1,425,895)	**(480,820)**	(388,210)
PROFIT FROM OPERATIONS BEFORE IMPAIRED ASSETS CHARGE		**6,654,509**	5,843,876	**1,811,736**	1,591,036
Provision for impairment of loans and advances	23	**(1,760,927)**	(1,653,128)	**(479,425)**	(450,076)
Impairment of available for sale investments		**(58,993)**	-	**(16,061)**	-
PROFIT FOR THE YEAR BEFORE TAXATION		**4,834,589**	4,190,748	**1,316,250**	1,140,960
Income taxes		**(32,619)**	(19,886)	**(8,881)**	(5,414)
PROFIT FOR THE YEAR		**4,801,970**	4,170,862	**1,307,369**	1,135,546
Profit attributable to:					
Equity holders of the Bank		**4,774,374**	4,154,345	**1,299,856**	1,131,049
Non-controlling interests		**27,596**	16,517	**7,513**	4,497
		4,801,970	4,170,862	**1,307,369**	1,135,546
Basic and diluted earnings per share	24	**AED 1.54**	AED 1.30	**US $ 0.42**	**US $0.35**

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2013

	2013 AED 000	*2012 AED 000*	***2013 US$ 000***	*2012 US$ 000*
PROFIT FOR THE YEAR	**4,801,970**	4,170,862	**1,307,369**	1,135,546
OTHER COMPREHENSIVE INCOME (LOSS):				
Items that will not be reclassified to the consolidated statement of income:				
Board of directors remuneration	**(31,500)**	(28,000)	**(8,576)**	(7,623)
Items that may be reclassified subsequently to the consolidated statement of income				
Gain on available for sale investments, net	**(86,049)**	310,117	**(23,428)**	84,431
Net unrealised losses on cash flow hedges	**(43,756)**	-	**(11,913)**	-
Share of changes recognised directly in associates' equity	**565**	70	**154**	19
Foreign exchange translation	**6,151**	250	**1,675**	68
	(123,089)	310,437	**(33,512)**	84,518
Other comprehensive (loss) income for the year	**(154,589)**	282,437	**(42,088)**	76,895
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,647,381**	4,453,299	**1,265,281**	1,212,441
Total comprehensive income attributable to:				
Equity holders of the Bank	**4,622,738**	4,436,782	**1,258,573**	1,207,944
Non-controlling interests	**24,643**	16,517	**6,708**	4,497
	4,647,381	4,453,299	**1,265,281**	1,212,441

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2013

	Notes	*2013* *AED 000*	*2012* *AED 000*	*2013* *US$ 000*	*2012* *US$ 000*
OPERATING ACTIVITIES					
Profit for the year before taxation		**4,834,589**	4,190,748	**1,316,250**	1,140,960
Adjustments for:					
Depreciation		**62,897**	61,996	**17,124**	16,879
Provision for impairment of available for sale investments		**58,993**	-	**16,061**	-
Gain on exchange of investment properties	21	**(185,979)**	-	**(50,634)**	-
Gain on bargain purchase arising on business combination	32	**(628)**	-	**(171)**	-
Loss on sale of property and equipment	21	**3,772**	42	**1,027**	11
Provision for impairment of loans and advances	23	**1,760,927**	1,653,128	**479,425**	450,076
Gain on revaluation of investment properties	7	**(125,192)**	(62,260)	**(34,084)**	(16,951)
(Gain) loss on sale of investment properties	21	**(73,801)**	10,095	**(20,093)**	2,749
Gain from investments		**(179,264)**	(67,520)	**(48,806)**	(18,383)
Share of loss (gain) of associates	6	**1,020**	(43,084)	**278**	(11,730)
Operating profit before changes in operating assets and liabilities:		**6,157,334**	5,743,145	**1,676,377**	1,563,611
Deposits with banks		**(133,396)**	3,376,508	**(36,317)**	919,278
Mandatory cash reserve with U.A.E. Central Bank		**(918,969)**	(1,073,271)	**(250,196)**	(292,206)
Loans and advances		**(12,003,643)**	(12,470,626)	**(3,268,076)**	(3,395,215)
Other assets		**427,544**	413,951	**116,402**	112,701
Due to banks		**938,744**	(4,315,951)	**255,580**	(1,175,048)
Customers' deposits		**18,064,961**	15,704,783	**4,918,312**	4,275,737
Other liabilities		**(338,817)**	306,973	**(92,246)**	83,575
Cash from operations		**12,193,758**	7,685,512	**3,319,836**	2,092,433
Directors' remuneration paid		**(28,000)**	(28,000)	**(7,623)**	(7,623)
Net cash from operating activities		**12,165,758**	7,657,512	**3,312,213**	2,084,810
INVESTING ACTIVITIES					
Purchase of investments		**(6,387,127)**	(11,758,800)	**(1,738,940)**	(3,201,416)
Proceeds from redemption and sale of investments		**6,586,194**	13,254,059	**1,793,137**	3,608,510
Purchase of property and equipment	9	**(244,517)**	(55,562)	**(66,571)**	(15,127)
Dividends from associates		-	93,998	-	25,592
Deposits with U.A.E. Central bank		-	(1,000,000)	-	(272,257)
Capital injected in associate	32	**(300,000)**	-	**(81,677)**	-
Acquisition of subsidiary		**(915,942)**	-	**(249,372)**	-
Additions to investment properties	7	**(249,909)**	(532,539)	**(68,039)**	(144,987)
Proceeds from sale of investment properties		**300,017**	350,792	**81,683**	95,505
Proceeds from sale of property and equipment		**55**	41	**15**	11
Net cash (used in) from investing activities		**(1,211,229)**	351,989	**(329,764)**	95,831
FINANCING ACTIVITIES					
Dividends paid	18	**(2,468,720)**	(1,479,818)	**(672,126)**	(402,891)
Interest on capital notes		**(240,000)**	(240,000)	**(65,342)**	(65,342)
Sukuk financing instruments		-	1,836,500	-	500,000
Drawdown of term loans		**3,639,125**	4,385,658	**990,778**	1,194,026
Repayment of term loans		**(5,310,801)**	(3,679,611)	**(1,445,903)**	(1,001,800)
Net cash (used in) from financing activities		**(4,380,396)**	822,729	**(1,192,593)**	223,993
NET INCREASE IN CASH AND CASH EQUIVALENTS		**6,574,133**	8,832,230	**1,789,856**	2,404,634
Cash and cash equivalents at 1 January		**17,320,401**	7,860,682	**4,715,598**	2,140,126
Cash and cash equivalents of Subsidiary (note 1)		-	625,449	-	170,283
Net changes in foreign currency translation reserve		**9,104**	2,040	**2,479**	555
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	**23,903,638**	17,320,401	**6,507,933**	4,715,598
Operating cash flows from interest and Islamic financing					
Interest and Islamic financing income received		**7,647,316**	7,450,996	**2,082,035**	2,028,586
Interest and Islamic financing expense paid		**1,715,568**	1,896,039	**467,075**	516,210

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2013

	Attributable to equity holders of the Bank												
	Share capital AED 000	Capital notes AED 000	Legal reserve AED 000	Special reserve AED 000	General reserve AED 000	Revaluation reserve AED 000	Proposed bonus shares AED 000	Proposed cash dividends AED 000	Retained earnings AED 000	Cumulative changes in fair values AED 000	Foreign currency translation reserve AED 000	Total AED 000	Non-controlling interests AED 000	Total equity AED 000
As of 1 January 2012	1,500,000	4,000,000	8,780,110	846,648	120,000	87,554	1,500,000	1,500,000	8,256,566	83,053	(22,503)	26,651,428	115,688	26,767,116
Total comprehensive income for the year	-	-	-	-	-	-	-	-	4,126,346	310,186	250	4,436,782	16,517	4,453,299
Transfer to special reserve (note 18)	-	-	-	415,435	-	-	-	-	(415,435)	-	-	-	-	-
Transfer to dividends payable	-	-	-	-	-	-	-	(1,500,000)	-	-	-	(1,500,000)	-	(1,500,000)
Interest on capital notes (note 17)	-	-	-	-	-	-	-	-	(240,000)	-	-	(240,000)	-	(240,000)
Non-controlling interests recognized (note 1)	-	-	-	-	-	-	-	-	-	-	-	-	382,675	382,675
Proposed cash dividends (note 18)	-	-	-	-	-	-	-	2,500,000	(2,500,000)	-	-	-	-	-
Proposed bonus shares converted to shares (note 18)	1,500,000	-	-	-	-	-	(1,500,000)	-	-	-	-	-	-	-
As of 1 January 2013	**3,000,000**	**4,000,000**	**8,780,110**	**1,262,083**	**120,000**	**87,554**	-	**2,500,000**	**9,227,477**	**393,239**	**(22,253)**	**29,348,210**	**514,880**	**29,863,090**
Total comprehensive income for the year	-	-	-	-	-	-	-	-	4,742,874	(129,240)	9,104	4,622,738	24,643	4,647,381
Transfer to special reserve (note 18)	-	-	-	237,917	-	-	-	-	(237,917)	-	-	-	-	-
Transfer to dividends payable	-	-	-	-	-	-	-	(2,500,000)	-	-	-	(2,500,000)	-	(2,500,000)
Interest on capital notes (note 17)	-	-	-	-	-	-	-	-	(240,000)	-	-	(240,000)	-	(240,000)
Proposed cash dividends (note 18)	-	-	-	-	-	-	-	3,000,000	(3,000,000)	-	-	-	-	-
Proposed bonus shares (note 18)	-	-	-	-	-	-	900,000	-	(900,000)	-	-	-	-	-
As of 31 December 2013	3,000,000	4,000,000	8,780,110	1,500,000	120,000	87,554	900,000	3,000,000	9,592,434	263,999	(13,149)	31,230,948	539,523	31,770,471

The attached notes 1 to 32 form part of these consolidated financial statements.

1 ACTIVITIES

First Gulf Bank PJSC is a public joint stock company with limited liability incorporated in Abu Dhabi in accordance with U.A.E. Federal Law No. (8) of 1984 (as amended). First Gulf Bank PJSC, its branches and subsidiaries (the "Bank") carry on commercial and retail banking, investment and real estate activities in Abu Dhabi, Dubai, Ajman, Sharjah, Fujairah, Al Ain and Ras Al Khaimah. The representative office of the Bank in Singapore has commenced operations from September 2007 and was upgraded to a wholesale bank in August 2009. The Bank has established a representative office in India in September 2009 and in Qatar in November 2009. The representative office in Qatar was upgraded to a branch in May 2011. In December 2012, the Bank established a representative office in Hong Kong.

Up until February 2011, the Bank had a partially owned subsidiary in Libya, First Gulf Libyan Bank (the "Subsidiary"), that carried out commercial banking activities. Effective March 2011, the Bank disassociated itself from the Subsidiary by suspending its management agreement and the entire Bank nominated members in the Subsidiary board resigned. As a result of these changes, the Bank de-recognized the assets, liabilities and non-controlling interest relating to the Subsidiary. As of that date, the investment in the Subsidiary with a net carrying amount of AED 388 million was classified as available for sale investment. During 2012, the Bank's representatives were reinstated to the Board of Directors of the Subsidiary and a revised management agreement was signed, and consequently the Bank regained control over the Subsidiary.

In June 2011 and March 2013, the Bank established "FGB Sukuk Company Limited I" and " FGB Sukuk Company Limited II", respectively, as wholly owned subsidiaries incorporated in the Cayman Islands for the issuance of Sukuk financing instruments (note 13).

The registered head office of the Bank is at PO Box 6316, Abu Dhabi, United Arab Emirates (U.A.E.). The principal activities of the Bank are described in note 29.

The consolidated financial statements of the Bank were authorised for issue by the Board of Directors on 29 January 2014.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board (IASB) and the applicable requirements of UAE Federal Law No.8 of 1984 (as amended).

The consolidated financial statements have been prepared under the historical cost convention except for investment securities (other than held to maturity investments), derivative financial instruments, investment properties and land included in property and equipment which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements of the Bank are prepared in United Arab Emirates Dirhams (AED) which is the functional currency of the Bank. The consolidated balance sheet, consolidated income statement and consolidated statement of cash flows in US Dollar (US$) are presented solely for the convenience of the readers of the consolidated financial statements. The AED amounts have been translated at the rate of AED 3.673 to US$ 1 (2012: AED 3.673 to US$ 1) and all values are rounded to the nearest thousand AED except where otherwise indicated.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Changes in accounting policies and disclosures

The Bank's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2012, except for the following amendments to IFRS effective as of 1 January 2013 which do not have any significant impact on the consolidated financial statements:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

The application of this new standard had no impact on the Bank.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, Jointly Controlled Entities that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The application of this new standard had no impact on the Bank.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for these entities.

The application of IFRS 12 Disclosure of Interests in Other Entities has resulted in additional disclosures in the consolidated financial statements. Furthermore, the Bank does not have unconsolidated structured entities which require disclosure.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS.

IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Bank re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 31.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Changes in accounting policies and disclosures continued

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of overseas operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings).

The amendment affected presentation only and had no impact on the Bank's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Bank), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes.

The application of this amendment had no impact on the Bank.

IAS 19 Employee Benefits (Revised 2011)
IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

The application of this revised standard had no impact on the Bank.

Future changes in accounting policies - Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below.

- IFRS 9 Financial Instruments
- IFRIC Interpretation 21 Levies (IFRIC 21)

Improvements to IFRSs

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1 January 2014. The amendments listed below, are considered to have a reasonable possible impact on the Bank:

- IFRS 9 Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS

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

2 SIGNIFICANT ACCOUNTING POLICIES continued

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	*Country of incorporation*	*Percentage of holding* *2013*	*2012*
Mismak Properties Co. LLC (Mismak)	Real estate investments	United Arab Emirates	**100%**	100%
Radman Properties Co. LLC (subsidiary of Mismak)	Real estate investments	United Arab Emirates	**80%**	80%
First Merchant International LLC	Merchant banking services	United Arab Emirates	**100%**	100%
FGB Sukuk Company Limited	Special purpose vehicle	Cayman Islands	**100%**	100%
FGB Sukuk Company II Limited	Special purpose vehicle	Cayman Islands	**100%**	-
First Gulf Libyan Bank	Banking services	Libya	**50%**	50%
First Gulf Properties LLC	Management and brokerage of real estate properties	United Arab Emirates	**100%**	100%
Aseel Finance PJSC	Islamic finance	United Arab Emirates	**100%**	40%
Dubai First PJSC	Credit card finance	United Arab Emirates	**100%**	-

During the year, the Bank acquired an additional stake of 60% in Aseel Finance PJSC ("Aseel") and acquired 100% of Dubai First PJSC ("Dubai First"). The Bank obtained control over Aseel and Dubai First on 31 July 2013 and 6 November 2013; respectively (note 32).

Although the Bank owns 50% of the outstanding shares of First Gulf Libyan Bank, the investment has been classified as a subsidiary as the Bank exercises control over the investee because it casts the majority of the votes on the board of directors.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. The Bank exercises control over all of the subsidiaries listed above.

Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES continued

Basis of consolidation continued

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Bank's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Bank are eliminated in full on consolidation.

Non-controlling interests represent the portion of the profit and net assets in subsidiaries not held by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the Bank shareholders' equity.

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

Trading investments
These are initially recognised at cost, being the fair value of the consideration given and subsequently remeasured at fair value. All related realised and unrealised gains or losses are included in the consolidated income statement.

Investments
These are classified as follows:
- Held to maturity
- Available for sale
- Investments carried at fair value through income statement

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges (except for investments carried at fair value through the income statement) associated with the investment. Premiums and discounts on investments (excluding those carried at fair value through income statement) are amortised using the effective interest rate method and taken to interest income.

Held to maturity
Investments which have fixed or determinable payments and are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value.

Available for sale
After initial recognition, investments which are classified "available for sale" are remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Investments continued

Investments carried at fair value through income statement

Investments are classified as fair value through income statement if the fair value of the investment can be reliably measured and the classification as fair value through income statement is as per the documented strategy of the Bank. Investments classified as "Investments at fair value through income statement" upon initial recognition are subsequently remeasured at fair value with all changes in fair value being recorded in the consolidated income statement.

Investment in associates

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Bank's investments in its associates is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Bank's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Bank's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Bank's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Bank's share of profit or loss of an associate is shown on the face of the consolidated statement of income. The financial statements of the associate are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Bank determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated statement of income.

Upon loss of significant influence over the associate, the Bank measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Repurchase and reverse repurchase agreements

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

Conversely, securities purchased under agreements to resell at a specified future date ("Reverse Repos") are not recognised on the consolidated balance sheet. The corresponding cash paid, including accrued interest, is included in loans and advances. The difference between the purchase price and resale prices is treated as interest income which is accrued, using the effective interest rate, over the life of the Reverse Repos.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Loans and advances
These are stated at amortised cost, adjusted for effective fair value hedges and stated net of interest suspended less any amounts written off and provision for impairment. Impaired loans are written off only when all possible courses of action to achieve recovery have proved unsuccessful. Amortised cost is calculated using the effective interest rate method.

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

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

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate standards. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES continued

Islamic financing
Islamic financing comprise principally of floating profit-rate Ijara and Murabaha contracts which are stated at cost less any provisions for impairment.

Ijara
A lease contract whereby the Bank (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset which either exists currently or to be constructed in future (forward lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

Murabaha
A sale contract, in which the Bank sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price which consists of the purchasing cost plus a mark-up profit.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement.

Impairment is determined as follows:
(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.
(b) for assets carried at fair value, impairment is the difference between cost and fair value.
(c) for assets carried at cost, impairment is based on the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments, reversals of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a provision is made to cover collective impairment for specific groups of assets carried at amortised cost, where there is a measurable decrease in estimated future cash flows.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the Bank receives non-monetary grants with no conditions attached thereto, the asset and grant are recorded at fair value and the grant is recognised in the consolidated income statement in the period in which it is received. In the case of other non-monetary grants, the grant is set up as deferred income at its fair value and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

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

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

Transfers are made to or from investment property only when there is a change in use. For a transfer from properties held for sale, any difference between the fair value of the property at the date of transfer and its previous carrying amount shall be recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment
Property and equipment are initially recorded at cost. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount and, where carrying values exceed the recoverable amount, assets are written down. Land is measured at fair value based on valuations performed by independent professional valuers.

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

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

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

Buildings	20 years
Motor vehicles	3 years
Furniture, fixtures and equipment	4 years
Computer hardware and software	4 years

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

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

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

Treasury shares
Own equity instruments which are acquired (treasury shares) are deducted from the equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancelation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. If treasury shares are distributed as part of a bonus share issue, the cost of the shares is charged against retained earnings. Voting rights relating to treasury shares are nullified for the Bank and no dividends are allocated to them respectively.

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these consolidated financial statements.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

2 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued
Interest income and expense
For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available for sale investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised.

Fee and commission income
The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income
Revenue is recognised when the Bank's right to receive the payment is established.

Net trading income
Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

Rental income
Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement in 'Other operating income'.

Income and expense from Islamic financing
Income and expense from Islamic financing is recognised on a time-proportion basis based on principal amounts outstanding.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies
Monetary assets and liabilities in foreign currencies are translated into AED at rates of exchange prevailing at the balance sheet date. Any gains and losses are taken to the consolidated income statement.

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

As at the reporting date, the assets and liabilities of foreign operations are translated into the Bank's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in the equity relating to a particular foreign operation is recognised in the consolidated income statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with U.A.E. Central Bank and due from banks and other financial institutions with original maturities of less than three months.

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

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

Leases
Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

Derivatives
The Bank enters into derivative financial instruments including forwards, swaps, futures, options and swaptions in the foreign exchange and capital markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated balance sheet.

Hedges
For the purposes of hedge accounting, hedges are classified 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 is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

2 SIGNIFICANT ACCOUNTING POLICIES continued

Hedges continued
In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the consolidated income statement. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated income statement.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the consolidated income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken to the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, in the case of a cash flow hedge, any cumulative gains or losses on the hedging instrument initially recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gains or losses initially recognised in equity are transferred to the consolidated income statement.

In the case of a fair value hedge, for hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Trade and settlement date accounting
Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

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

Taxes
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Bank operates and generates taxable income. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Financial guarantees
Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments for a third party if the latter does not do so. Financial guarantees are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on loans and advances. If a specific provision is required for financial guarantees, the related unearned commissions recognised under other liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

2 SIGNIFICANT ACCOUNTING POLICIES continued

De-recognition of financial assets and liabilities
The Bank de-recognises all or part of a financial asset when the contractual rights to the cash flows on the asset expire or when the Bank has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to the ownership of the asset. The Bank derecognises all or part of a financial liability when the liability is extinguished in full or in part.

Fair value measurement
The Bank measures financial instruments and non-financial assets such as assets held for sale, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in note 31.

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

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

2 SIGNIFICANT ACCOUNTING POLICIES continued

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

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities. The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving such investments, current market value of instruments which are substantially the same, or is based on the expected discounted cash flows.

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

The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities. For other derivatives without quoted prices in an active market, fair value is determined based on quotations received from counter party financial institutions or established third party valuation models.

The fair value of unquoted investments is determined by reference to discounted cash flows, pricing models, net asset base of investee companies or broker over-the-counter quotes.

Repossessed collateral
Repossessed collateral against settlement of customers' debts are stated within the consolidated statement of financial position under "Other assets" at their acquisition date fair value net of allowance for impairment.

According to the instructions of the Central Bank of the UAE, the Bank should dispose of any land and properties acquired against settlement of debts within a period not exceeding three years from the date of acquiring the assets.

Significant accounting judgements and estimates
In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Going concern
The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Classification of investment properties under construction
Management decides for each property whether it should be classified as investment property, property and equipment or as properties held for sale.

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

Properties held for own use is recorded as property and equipment.

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

2 SIGNIFICANT ACCOUNTING POLICIES continued

Significant accounting judgements and estimates continued

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through income statement, or available for sale.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Bank has the intention and ability to hold these to maturity.

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

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

All other investments are classified as available for sale.

Impairment of investments

The Bank treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement for which management takes into consideration, amongst other factors, share price volatility and the underlying asset base of the investee companies.

Impairment losses on loans and advances

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

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of the provision is based on the guidelines issued by the Central Bank of the UAE.

3 CASH AND BALANCES WITH CENTRAL BANKS

	2013	*2012*
	AED 000	*AED 000*
Cash on hand	**370,393**	312,431
Balances with Central Banks	**15,574,161**	12,531,905
	15,944,554	12,844,336

Balances with U.A.E. Central Bank include AED 4,382,713 thousand (2012: AED 3,463,744 thousand) representing mandatory cash reserve deposits and AED 7,000,000 thousand (2012: AED 7,000,000 thousand) representing certificates of deposit. These are not available for use in the Bank's day-to-day operations.

4 LOANS AND ADVANCES

The composition of loans and advances portfolio is as follows:

	2013 *AED 000*	*2012* *AED 000*
Economic Sector		
Agriculture	**1,130,700**	97,681
Energy	**1,808,678**	2,654,012
Trading	**9,041,544**	8,882,169
Construction	**5,665,029**	4,594,686
Transport	**764,311**	776,824
Personal – Retail loans and credit cards	**30,834,483**	26,641,385
Personal – Retail mortgages	**3,460,035**	3,004,976
Personal – Retail mortgages - National Housing Loans (note 11)	**14,863,912**	12,514,612
Personal – Others	**4,064,063**	2,822,194
Government	**157,933**	502,082
Share financing	**1,440,629**	2,664,954
Real estate	**17,345,310**	19,844,429
Financial Services	**6,767,069**	4,610,997
Other Services	**17,955,068**	13,062,801
Public sector	**10,757,951**	10,644,509
Manufacturing	**4,722,023**	5,077,919
Others	**67,872**	-
Total	**130,846,610**	118,396,230
Less provision for impaired loans and advances	**(3,905,091)**	(3,751,751)
Total	**126,941,519**	114,644,479
Representing:		
Conventional loans and advances	**120,409,783**	109,395,525
Islamic financing	**6,531,736**	5,248,954
Total	**126,941,519**	114,644,479

Loans and advances to customers are stated net of provision for impairment. The movements in the provision during the year were as follows:

	2013 *AED 000*	*2012* *AED 000*
At 1 January	**3,751,751**	3,621,655
Amounts written off	**(1,588,028)**	(1,426,947)
Recoveries (note 23)	**(100,108)**	(158,600)
Charge for the year (note 23)	**1,861,035**	1,811,728
Acquired in business combination (note 32)	**77,140**	-
Notional interest on impaired loans and advances (note 19)	**(96,699)**	(96,085)
At 31 December	**3,905,091**	3,751,751

At 31 December 2013, the provision for impaired loans and advances includes an amount of AED 112.5 million (2012: AED 149 million) in respect of loans and advances to subsidiaries of Dubai Holding of AED 456 million (2012: AED 456 million), which have been restructured. At 31 December 2013, other balances in accounts classified as impaired amounted to AED 3,831 million (2012: AED 3,449 million).

4 LOANS AND ADVANCES continued

In certain cases, the Bank continues to carry classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Where appropriate, interest is recorded and suspended on these accounts for legal considerations. Interest income on impaired loans is recognized in accordance with IAS 39: Financial Instruments: Recognition and Measurement. The notional interest on impaired loans and advances charged during the year amounted to AED 96,699 thousand (2012: AED 96,085 thousand).

During 2013, National Housing Loans increased by AED 3,122,976 thousand (2012: AED 2,979,555 thousand), which was partially offset by the waiver of AED 773,676 thousand (2012: AED 834,312 thousand) representing a discount of 25% (2012: 25%) granted to nearly 1,551 borrowers (2012: 1,673 borrowers) on the completion of their houses as directed by the Private Housing Loans Authority for Nationals. The amount waived was reduced from the corresponding Abu Dhabi Government deposit (note 11). This is a non-cash transaction which has been excluded from the statement of cash flows.

5 INVESTMENTS

	2013 *AED 000*	*2012* *AED 000*
Carried at fair value through income statement		
Investments in managed funds	**184,520**	168,258
Investments in equities - Quoted	**112,369**	149,120
- Unquoted	**20,198**	19,178
Debt securities	**7,165**	159,765
	324,252	496,321
Available for sale investments		
Investments in equities -Quoted	**26,184**	28,599
-Unquoted	**79,148**	70,632
Investments in private equity funds	**1,372,356**	1,398,028
Debt securities - Quoted	**7,296,614**	4,008,194
- Unquoted	**347,197**	13,053
Structured debt notes - Unquoted	**550,950**	1,193,725
	9,672,449	6,712,231
Held to maturity investments		
Debt securities - Quoted	**6,098,535**	9,061,135
- Unquoted	**1,018,184**	1,008,579
	7,116,719	10,069,714
Total	**17,113,420**	17,278,266
Analysis of debt securities:		
Fixed rate	**13,612,600**	12,197,235
Floating rate	**1,706,045**	3,247,216
	15,318,645	15,444,451

5 INVESTMENTS continued

Geographic analysis of investments is as follows:

	2013 *AED 000*	*2012* *AED 000*
U.A.E.	**7,969,591**	9,389,705
Asia	**3,069,656**	1,307,318
Europe	**1,989,615**	1,948,508
USA	**1,196,258**	2,925,002
Rest of the world	**2,888,300**	1,707,733
	17,113,420	17,278,266

Investments in managed funds represent investments made in managed hedge funds which invest in equities, debt securities and derivatives with the objective of generating superior returns on a risk-adjusted basis using a diversified portfolio approach.

Investments in private equity funds represent investments made in funds and limited partnerships to fund primary investment commitments in target companies with the objective of generating returns outperforming the public equity markets.

Investments in equities amounting to AED 2,855 thousand (2012: AED 5,697 thousand) are held in the name of third parties with the beneficial interest assigned to the Bank.

Debt securities represent bonds with maturities ranging up to 10 years from the balance sheet date. Of the debt securities at 31 December 2013, 53% (2012: 55%) comprise bonds which are either guaranteed by governments or issued by entities owned by governments.

At 31 December 2013, the Bank's largest holding of debt securities issued by a single issuer accounted for 7% (2012: 12%) of total debt securities.

At 31 December 2013, debt securities with a carrying value of AED 1,662,564 thousand (2012: AED 3,090,579 thousand) were pledged under repurchase agreements with overseas financial institutions and banks with a principal value of AED 1,607,932 thousand (2012: AED 2,987,738 thousand).

The fair value of held to maturity investments at 31 December 2013 amounted to AED 7,370,168 thousand (2012: AED 10,464,545 thousand).

All unquoted available for sale equities are recorded at fair value except for investments amounting to AED 2,282 thousand (2012: AED 2,272 thousand) which are recorded at cost since their fair values cannot be reliably estimated. There is no active market for these investments and the Bank intends to hold them for the long term.

During 2008, the Bank entered into an exchange agreement (the "Agreement") in respect of an investment it held in a quoted equity, whereby the rights and benefits to the investment were transferred to the counterparty of the Agreement in exchange for the payment of interest at the rate of EURIBOR plus 0.5% for the duration of the agreement of 5 years. Under the agreement, any appreciation or decline in value of the investment at maturity or termination of the agreement, if earlier, would be ceded to the counterparty. Accordingly, the investment in the quoted equity was de-recognised and the balance outstanding from the third party representing the value of the investment of Euro 260 million (equivalent to AED 1,406 million at the inception of the agreement) was recorded under other assets. During 2011, the Bank, being the registered holder of the equity investment, participated in a rights issue offering by the investee, on behalf of the counterparty to the Agreement and purchased an additional investment with a total value of AED 128 million. During 2012, the Bank and the third party decided to unwind the originally signed agreement. The third party will return a specific number of shares to the Bank over a specified period of time. As at 31 December 2013, the Bank had acquired back all shares. The carrying amount of the interest bearing asset amounted to nil as at 31 December 2013 (2012: AED 689 million).

6 INVESTMENT IN ASSOCIATES

The Bank has the following investments in associates:

	Percentage of holding	
	2013	*2012*
First Gulf Financial Services LLC	**45%**	45%
Green Emirates Properties PJSC	**40%**	40%
Midmak Properties LLC	**16%**	16%
Aseel Finance PJSC	**-**	40%

First Gulf Financial Services LLC ("FGFS") is a limited liability company which is incorporated in the Emirate of Abu Dhabi and provides equity brokerage services in the United Arab Emirates.

Green Emirates Properties PJSC ("GEP") is a private joint stock company incorporated in the Emirate of Abu Dhabi and engaged mainly in the management and brokerage of real estate properties in United Arab Emirates and overseas.

Aseel Finance PJSC ("Aseel") is a private joint stock company which is incorporated in the Emirate of Abu Dhabi and provides Islamic financial services. The Bank acquired the remaining 60% shares of Aseel during the year (note 32).

Midmak Properties LLC ("Midmak") is a limited liability company incorporated in the Emirate of Abu Dhabi. Midmak is involved in real estate activities. Although the Bank owns 16% of the outstanding shares of Midmak, the investment has been classified as an associate as the Bank exercises significant influence due to representation of the Board of Directors.

Summarised financial information on investment in associates is set out below:

	2013	*2012*
	AED 000	*AED 000*
Share of associates' balance sheet		
Current assets	**145,102**	832,069
Non-current assets	**34,027**	73,237
Total assets	**179,129**	905,306
Current liabilities	**31,795**	510,768
Non-current liabilities	**189**	1,573
Total liabilities	**31,984**	512,341
Net assets	**147,145**	392,965
Carrying amount of investment in associates	**147,145**	392,965
Share of associates' revenue, profit and losses:		
Revenue	**46,677**	73,045
(Loss) profit for the year	**(1,020)**	43,084

As of 31 December 2013, the Bank's share of contingent liabilities of associates amounted to AED 249,607 thousand (2012: AED 330,008 thousand).

7 INVESTMENT PROPERTIES

	2013 *AED 000*	*2012* *AED 000*
Balance at 1 January	**7,771,812**	7,537,900
Additions	**249,909**	532,539
Acquired in business combination (note 32)	**97,986**	-
Disposals	**(226,216)**	(360,887)
Gain from fair value adjustment (note 21)	**125,192**	62,260
Properties disposed off as part of property exchange (i)	**(71,941)**	-
Properties acquired as part of property exchange (i)	**107,600**	-
Transfer to other assets (ii)	**(10,179)**	-
At 31 December	**8,044,163**	7,771,812

Amounts recognised in the consolidated statement of income in respect of investments properties are as follows:

	2013 *AED 000*	*2012* *AED 000*
Rental income derived from investment properties	**133,580**	114,865
Direct operating expenses generating rental income	**(60,955)**	(47,581)
Profit arising from investment properties	**72,625**	67,284

Investment properties are stated at fair value which represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation.

The Bank's investment properties consist of land, buildings and properties under development in Abu Dhabi and Dubai. Management determined that these investment properties consist of two classes of commercial and retail assets, based on the nature, characteristics and risks of each property.

As at 31 December 2013 and 2012, the fair values of the properties are based on the valuations performed by third party valuers. The valuers are accredited with recognized and relevant professional qualification and with recent experience in the location and category of investment properties being valued. The fair values have been determined based on varying valuation models depending on the intended use of the investment properties; in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards.

During the year, a subsidiary of the Bank (the "Subsidiary") entered into two agreements with property developers (the "Developers") to exchange certain plots of lands the Subsidiary had purchased, with other plots in different locations. Details of the agreements are as follows:

(i) The first agreement resulted in the Subsidiary acquiring properties in exchange of a property earlier recorded by the Subsidiary. The acquired properties were recorded at their fair values on the date of exchange. The exchange transaction resulted in a gain of AED 35,659 thousand. This non-cash transaction has been excluded from the consolidated statement of cash flows.

(ii) The second agreement resulted in the Subsidiary disposing off an earlier recorded property along with all related liabilities, in exchange for a property to be delivered in the future upon completion of the master plan related to the project in which the new property is located. As a result, the earlier recorded carrying value of the property of AED 10,179, was transferred to other assets. The exchange transaction resulted in a gain of AED 150,320 thousand, which includes the waiver of liabilities related to the exchanged property. This non-cash transaction has been excluded from the consolidated statement of cash flows.

7 INVESTMENT PROPERTIES continued

The following table shows the analysis of investment properties recorded at fair value by level of the fair value hierarchy:

	Level 1 *AED 000*	*Level 2* *AED 000*	*Level 3* *AED 000*	*Total* *AED 000*
31 December 2013	-	-	**8,044,163**	**8,044,163**
31 December 2012	-	-	7,771,812	7,771,812

Reconciliation of fair value for investment properties is as follows:

	Investment properties		
	Land & buildings *AED 000*	*Under-development* *AED 000*	*Total* *AED 000*
Opening balance	**4,622,973**	**3,148,839**	**7,771,812**
Additions	**5,035**	**244,874**	**249,909**
Acquired in business combination (note 32)	**97,986**	-	**97,986**
Disposals	-	**(226,216)**	**(226,216)**
Fair value adjustment	**189,203**	**(64,011)**	**125,192**
Properties disposed off as part of property exchange	**(71,941)**	-	**(71,941)**
Properties acquired as part of property exchange	**107,600**	-	**107,600**
Transfer to other assets	**(10,179)**	-	**(10,179)**
Closing balance	**4,940,677**	**3,103,486**	**8,044,163**
Unrealized gains / (losses) for the year included in profit or loss (recognized in other operating income)	**189,203**	**(64,011)**	**125,192**

Description of valuation techniques used and key inputs to valuation on investment properties:

	Valuation technique	*Significant unobservable inputs*
Buildings	Comparable and Residual Method	Comparable transactions
Land	Comparable and Residual Method	Cost of construction Developers profit Financing cos
Properties under development	Discounted cash flow method	Discount rate Cash inflows Cash outflows

8 OTHER ASSETS

	2013 *AED 000*	*2012* *AED 000*
Interest receivable	**1,143,491**	1,018,427
Prepayments	**70,522**	55,939
Positive fair value of derivatives (note 28)	**628,218**	678,263
Receivable under equity swap (note 5)	-	689,209
Receivable from sale of investment properties	**21,666**	27,788
Goodwill on acquisition of a subsidiary (note 32)	**238,869**	-
Advances against purchase of properties	**78,324**	-
Others	**986,017**	677,401
Total	**3,167,107**	3,147,027

9 PROPERTY AND EQUIPMENT

	Land *AED 000*	*Buildings* *AED 000*	*Capital work-in progress* *AED 000*	*Motor vehicles* *AED 000*	*Furniture, fixtures and equipment* *AED 000*	*Computer hardware and software* *AED 000*	*Total* *AED 000*
2013							
Cost or valuation:							
At 1 January 2013	264,018	397,102	-	2,347	112,719	198,337	974,523
Acquired in business combination (note 32)	-	3,561	-	330	8,012	20,656	32,559
Additions during the year	54,237	110,015	13,213	-	18,866	48,186	244,517
Cost of disposals	-	(1,511)	-	-	(4,179)	(2,191)	(7,881)
Written off	-	(2,211)	-	(237)	(9,181)	-	(11,629)
At 31 December 2013	**318,255**	**506,956**	**13,213**	**2,440**	**126,237**	**264,988**	**1,232,089**
Depreciation:							
At 1 January 2013	-	108,632	-	1,302	97,305	141,641	348,880
Acquired in business combination (note 32)	-	812	-	131	7,713	17,343	25,999
Provided during the year	-	27,481	-	492	9,985	24,939	62,897
Disposals	-	(1,258)	-	-	(4,066)	(818)	(6,142)
Written off	-	(842)	-	(85)	(8,615)	-	(9,542)
At 31 December 2013	-	**134,825**	-	**1,840**	**102,322**	**183,105**	**422,092**
Net book value:							
At 31 December 2013	**318,255**	**372,131**	**13,213**	**600**	**23,915**	**81,883**	**809,997**
2012							
Cost or valuation:							
At 1 January 2012	264,018	341,245	31,765	1,685	102,151	162,329	903,193
Attributable to reconsolidation of subsidiary	-	8,985	-	662	4,222	3,753	17,622
Additions during the year	-	7,277	7,830	-	7,595	32,860	55,562
Transfers	-	39,595	(39,595)	-	-	-	-
Cost of disposals	-	-	-	-	(1,249)	(605)	(1,854)
At 31 December 2012	264,018	397,102	-	2,347	112,719	198,337	974,523
Depreciation:							
At 1 January 2012	-	84,828	-	606	81,444	116,052	282,930
Attributable to reconsolidation of subsidiary	-	2,732		194	1,204	1,595	5,725
Provided during the year	-	21,072	-	502	15,851	24,571	61,996
Disposals	-	-	-	-	(1,194)	(577)	(1,771)
At 31 December 2012	-	108,632	-	1,302	97,305	141,641	348,880
Net book value:							
At 31 December 2012	264,018	288,470	-	1,045	15,414	56,696	625,643

The revaluation reserve of AED 87,554 (2012: AED 87,554) is related to land included under property and equipment.

10 DUE TO BANKS

	2013 *AED 000*	*2012* *AED 000*
Current and demand deposits	**97,213**	35,681
Deposits maturing within one year	**5,107,429**	3,883,817
Total	**5,204,642**	3,919,498

As of 31 December 2013, deposits maturing within one year amounting to AED 1,115,465 thousand (2012: nil) are held against the sale of debt securities with a carrying value of AED 1,126,282 thousand (2012: nil) with arrangements to repurchase them at a fixed future date.

11 CUSTOMERS' DEPOSITS

	2013 *AED 000*	*2012* *AED 000*
Current accounts	**25,615,919**	13,694,403
Saving accounts	**2,117,987**	1,460,641
Time deposits	**89,985,412**	88,030,522
Call and other deposits	**20,234,214**	16,119,068
Total	**137,953,532**	119,304,634

As of 31 December 2013, time deposits include deposits of AED 32,975 thousand (2012: AED 2,462,132 thousand) from overseas financial institutions held against the sale of debt securities, with a carrying value of AED 32,829 thousand (2012: AED 2,504,109 thousand), with arrangements to repurchase them at a fixed future date.

In December 2006, the Bank received an initial deposit of AED 5 billion from the Government of Abu Dhabi (the "Government") to fund an interest-free housing loans scheme for UAE Nationals, which is recorded in call and other deposits. The scheme is being administered by the Bank based on various terms and conditions agreed with the Government. As of 31 December 2013, the Government time deposit amounted to AED 15,067 million (2012: AED 12,845 million) and housing loans (note 4) amounted to AED 14,864 million (2012: AED 12,515 million). Interest is payable on this Government deposit at market rates based on the principal amount net of loan disbursements made.

During the year, the Abu Dhabi Government deposit increased by AED 3,122,976 thousand (2012: AED 2,978,698 thousand). The increase was partially offset by the waiver of AED 773,676 thousand (2012: AED 834,312 thousand) representing a discount of 25% (2012: 25%) granted to nearly 1,551 borrowers (2012: 1,673 borrowers) as further discussed in note 4. This is a non-cash transaction which has been excluded from the statement of cash flows.

As of 31 December 2013, the top 5 depositors accounted for 30% of total customer deposits (2012: 27%).

12 TERM LOANS

	2013 *AED 000*	*2012* *AED 000*
Syndicated loan	**3,305,700**	3,305,700
Bank loans	**1,469,200**	1,469,200
Euro Medium Term Notes	**4,846,298**	2,387,450
Federal Government loan	**-**	4,510,087
Medium term bonds	**1,648,405**	1,202,728
Repurchase agreements	**459,492**	525,606
	11,729,095	13,400,771

Syndicated Loan:
On 6 December 2012, the Bank obtained a loan of US$ 900 million (equivalent to AED 3,306 million) from a syndicate comprising of several foreign and local banks. The loan is repayable in full in December 2015. The loan accrues interest at the rate of LIBOR plus a margin of 1.30% per annum plus a mandatory cost, if any, calculated by the facility agent as the weighted average of the lenders' additional cost rates. The loan is subject to various terms, covenants and conditions. Specifically, the Bank should ensure that its capital adequacy ratio shall not at any time be less than the Basel II minimum capital requirements as implemented in the U.A.E. under the guidelines of the Central Bank.

Bank Loans:
Bank loans comprise of several borrowings obtained from other commercial banks as follows:

Loan no.	*Year obtained*	*Loan amount US$ 000*	*Loan amount AED 000*	*Maturity*	*Interest*
1	2012	200,000	734,600	April 2014	Libor + 150 bps
2	2013	150,000	550,950	December 2014	Libor + 100 bps
3	2013	50,000	183,650	March 2016	Libor + 130 bps
		400,000	1,469,200		

Euro Medium Term Notes:
During 2007, the Bank established a US$ 3.5 billion, Euro Medium Term Notes Programme (the "Programme"). The Bank subsequently issued the following notes under the Programme:

(i) During 2009, the Bank issued a 3 year Euro Medium Term Note (EMTN) of US$ 500 million (equivalent to AED 1,837 million). The notes have been repaid in full on 26 November 2012.

(ii) On 9 October 2012, the Bank issued another Euro Medium Term Note (EMTN) of US$ 650 million (equivalent to AED 2,387 million) under the same EMTN programme. The notes are due in October 2017 and carry a coupon rate of 2.862% per annum payable semi-annually in arrears.

(iii) On 8 August 2013, the Bank issued a Euro Medium Term Note (EMTN) of HKD 400 million (equivalent to AED 189 million). The notes are due in August 2023 and carry a coupon rate of 4.18% per annum payable annually in arrears.

(iv) On 15 August 2013, the Bank issued a Euro Medium Term Note (EMTN) of HKD 400 million (equivalent to AED 189 million). The notes are due in August 2023 and carry a coupon rate of 4.18% per annum payable annually in arrears.

12 TERM LOANS continued

Euro Medium Term Note: continued

(v) On 19 September 2013, the Bank issued a Euro Medium Term Note (EMTN) of JPY 4,700 million (equivalent to AED 177 million). The notes are due in September 2016 and carry a coupon rate of 1.00% per annum payable semi-annually in arrears.

(vi) On 14 November 2013, the Bank issued a Euro Medium Term Note (EMTN) of US$ 500 million (equivalent to AED 1,836 million). The notes are due in January 2019 and carry a coupon rate of 3.250% per annum payable semi-annually in arrears.

(vii) On 12 December 2013, the Bank issued a Euro Medium Term Note (EMTN) of US$ 25 million (equivalent to AED 92 million). The notes are due in December 2016 and carry a coupon of 3 months USD LIBOR plus a margin of 1.23% per annum payable quarterly in arrears.

Federal Government Loan:

As of 31 December 2008, customer deposits included deposits of AED 4,510,087 thousand placed by the U.A.E. Federal Government (the "Lender") for a period of 3-5 years. During 2009, these deposits were re-categorised as a subordinated loan. The loan is eligible as Tier 2 Capital for the purposes of calculation of capital adequacy ratio as per the Basel II guidelines implemented by the Central Bank of the UAE.

As per the terms, the loan is subordinated to all creditors other than junior creditors and the equity shareholders of the Bank. The loan bears a fixed interest rate of 4% per annum for first two years and steps up to 4.5% per annum and 5% per annum in the third and fourth years and from fifth year onwards at 5.25% p.a. Interest is payable on a quarterly basis. The loan matures on 31 December 2016.

The agreement contains certain conditions relating to the Bank's minimum Tier 1 Capital requirement and also stipulates that the Lender has the right at its sole discretion to convert the loan amount together with accrued interest into share capital in case of breach of agreement by the Bank.

The Bank has the option at any time during the option period to repay the loan in whole or in part subject to meeting certain conditions.

The Federal Government Loan of AED 4,510,087 thousand was repaid in full on 3 March 2013.

Medium Term Bonds:

On 16 February 2011, the Bank issued 5 year bonds of CHF 200 million (equivalent of AED 824 million). The bonds are due in February 2016 and carry a coupon rate of 3% per annum payable annually in arrears.

On 27 November 2012, the Bank issued CHF 100 million bonds (equivalent of AED 412 million). The bonds are due in January 2016 and carry a coupon at the rate of 3 months CHF LIBOR plus a margin of 1.15% per annum payable quarterly in arrears.

On 23 April 2013, the Bank issued CHF 100 million bonds (equivalent of AED 412 million). The bonds are due in April 2015 and carry a coupon at the rate of 3 months CHF LIBOR plus a margin of 0.60% per annum payable quarterly in arrears.

12 TERM LOANS continued

Repurchase Agreements:
During 2010, the Bank entered into several transactions with a foreign bank to obtain financing against the sale of debt securities with arrangements to repurchase them at a fixed future date. As at 31 December 2013, the carrying value of debt securities sold under these arrangements amounted to AED 503,453 thousand (2012: 586,470 thousand). The amount and maturity of outstanding transactions are as follows:

	2013		*2012*		
No.	***Amount US$ 000***	***Amount AED 000***	*Amount US$ 000*	*Amount AED 000*	*Maturity*
1	-	-	18,000	66,114	1-August-2013
2	**54,900**	**201,648**	54,900	201,648	8-April-2014
3	**13,500**	**49,585**	13,500	49,585	8-October-2014
4	**40,500**	**148,756**	40,500	148,756	25-October-2017
5	**7,200**	**26,446**	7,200	26,446	1-August-2018
6	**9,000**	**33,057**	9,000	33,057	8-April-2019
	125,100	**459,492**	143,100	525,606	

The Bank has not had any defaults of principal, interest or other breaches with regard to all borrowings during the year ended 31 December 2013 and year ended 31 December 2012.

13 SUKUK FINANCING INSTRUMENTS

In August 2011, the Bank raised financing by way of a Sukuk issued by FGB Sukuk Company Limited (a special purpose vehicle) amounting to US$ 650 million (equivalent to AED 2,387 million) and maturing in August 2016 (the "Sukuk"). The Sukuk carries a fixed profit rate of 3.797 percent per annum payable semi-annually and is listed on the London Stock Exchange. The Sukuk was the inaugural issuance under the US$ 3.5 billion trust certificate issuance programme. Pursuant to the Sukuk structure, FGB Sukuk Company Limited (as Rab-ul-Maal and Trustee) will receive certain payments from the Bank (as mudareb of certain mudaraba assets and wakeel of certain wakala assets). FGB Sukuk Company Limited will use such amounts received from the Bank to discharge its payment obligations under the Sukuk. Such payment obligations of the Bank rank pari passu with all other senior unsecured obligations of the Bank.

On 18 January 2012, the Bank issued its second tranche of trust certificates amounting to US$ 500 million (equivalent to AED 1,836 million) due in January 2017 under the same trust certificate issuance program. The Sukuk carries a fixed profit rate of 4.046 percent per annum payable semi-annually and is listed on the London Stock Exchange.

14 OTHER LIABILITIES

	2013 AED 000	*2012 AED 000*
Interest payable	**518,599**	677,614
Accrued expenses	**269,804**	196,507
Provisions for staff benefits (note 15)	**291,660**	251,689
Accounts payable and sundry creditors	**1,205,469**	1,014,498
Advances received on sale of investment properties	**982,418**	956,802
Payable in respect of acquisition of investment properties	**136,383**	229,227
Negative fair value of derivatives (note 28)	**708,825**	852,009
Others	**37,522**	143,320
Total	**4,150,680**	4,321,666

15 PROVISION FOR STAFF BENEFITS

The movement in the provision was as follows:

	2013	*2012*
	AED 000	*AED 000*
At 1 January	**251,689**	226,554
Arising during the year	**224,296**	182,549
Acquired in business combination (note 32)	**1,340**	-
Utilised	**(185,665)**	(157,414)
At 31 December	**291,660**	251,689

16 SHARE CAPITAL

	Authorized, issued and fully paid	
	2013	*2012*
	AED 000	*AED 000*
Ordinary shares of AED 1 each	**3,000,000**	3,000,000

In its meeting held on 29 January 2014, the Board of Directors of the Bank proposed to distribute 900 million shares amounting to AED 900 million to shareholders of the Bank as bonus shares. The resolution is subject to the approval of the shareholders of the Bank in the forthcoming Annual General Meeting.

17 CAPITAL NOTES

Following approval of the Extraordinary General Assembly meeting held on 25 February 2009, the Board of Directors resolved on 26 February 2009 to issue capital notes (the "Notes") to the Department of Finance, Government of Abu Dhabi amounting to AED 4 billion. The Notes are subject amongst other terms, to the following:

- The Notes have a par value of AED 10 million each;
- The Notes are perpetual securities in respect of which there is no fixed redemption date;
- The Notes constitute direct, unsecured and subordinated obligations of the Bank;
- The Notes holder is entitled to a non-cumulative semi-annual fixed interest coupon at the rate of 6% per annum until February 2014 and floating interest rate of EIBOR plus 2.3% per annum thereafter. The Bank may at its sole discretion elect not to make an interest coupon payment. Any interest payment made will be reflected in the statement of changes in equity. During the year, interest payments amounted to AED 240 million (2012: AED 240 million).

18 APPROPRIATIONS

Legal reserve
In accordance with the U.A.E. Commercial Companies Law No. 8 of 1984 (as amended) and the Articles of Association of the Bank, 10% of profit for the year of the Bank shall be transferred to the legal reserve until it reaches 50% of the nominal value of the paid up share capital. The early conversion of the mandatory convertible bonds during 2011 resulted in an increase to the legal reserve by AED 3,475 million. As the legal reserve exceeds 50% of the share capital, no further transfers from the net profit are made to the legal reserve. The legal reserve is not available for distribution.

Special reserve
As required by Article 82 of Union Law No 10 of 1980, 10% of the profit for the year shall be transferred to the special reserve. The Bank has resolved to discontinue such annual transfers as the reserve equals 50% of the nominal value of the paid up share capital, unless the nominal share capital of the Bank is increased in the future. Accordingly, as at 31 December 2013, only AED 237,917 thousand was transferred to the special reserve. The special reserve is not available for distribution.

General reserve
Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

No transfers are proposed by the Board of Directors from the profit for the year to the general reserve (2012: nil).

Dividends

	2013 ***AED 000***	*2012* *AED 000*
Cash dividends proposed in respect of 2013: AED 1 (2012: Declared AED 0.83 fils)	**3,000,000**	2,500,000
Bonus shares proposed in respect of 2013: AED 0.3 (2012: Declared nil)	**900,000**	-
Dividend on ordinary shares paid during the year	**2,468,720**	1,479,818

19 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2013 ***AED 000***	*2012* *AED 000*
Interest income		
Loans and advances	**6,785,675**	6,600,365
Deposits with banks and financial institutions	**165,099**	172,145
Investment securities	**539,915**	487,319
Notional interest on impaired loans and advances (note 4)	**96,699**	96,085
Total	**7,587,388**	7,355,914
Income from Islamic financing	**281,211**	288,574
Interest income and income from Islamic financing	**7,868,599**	7,644,488

20 INTEREST EXPENSE AND ISLAMIC FINANCING EXPENSE

	2013 AED 000	*2012 AED 000*
Interest expense		
Customers' deposits	**1,217,424**	1,349,852
Bank deposits	**60,151**	50,343
Term loans	**246,292**	367,383
Total	**1,523,867**	1,767,578
Islamic financing expense	**351,170**	356,526
Interest expense and Islamic financing expense	**1,875,037**	2,124,104

21 OTHER OPERATING INCOME

	2013 AED 000	*2012 AED 000*
Investment income:		
Gains on disposal of available for sale investments	**128,110**	51,766
Gains on disposal of investments carried at fair value through income statement	**39,598**	15,298
Change in fair value of investments carried at fair value through income statement	**16,556**	456
Other investment income	**6,654**	9,855
Total investment income	**190,918**	77,375
Commission income	**527,053**	502,107
Fee income	**612,522**	475,773
Fees and commissions on credit cards	**409,458**	299,133
Brokerage and fund management fee income	**14,862**	22,885
Foreign exchange income	**87,475**	79,045
Derivatives income	**54,670**	40,445
Gain on revaluation of investment properties (note 7)	**125,192**	62,260
Gain (loss) on sale of investment properties	**73,801**	(10,095)
Loss on sale of property and equipment	**(3,772)**	(42)
Rental income, net (note 7)	**72,625**	67,284
Gain on exchange of investment properties (note 7)	**185,979**	-
Other income	**77,236**	90,133
Total	**2,428,019**	1,706,303

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2013 *AED 000*	*2012* *AED 000*
Staff costs	**812,335**	685,486
Depreciation (note 9)	**62,897**	61,996
Other general and administrative expenses	**890,820**	678,413
Total	**1,766,052**	1,425,895
Number of employees	**1,452**	1,112

23 PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES

	2013 *AED 000*	*2012* *AED 000*
Provision for impaired loans and advances (note 4)	**1,861,035**	1,811,728
Recoveries (note 4)	**(100,108)**	(158,600)
	1,760,927	1,653,128

24 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts for the year are calculated by dividing profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

The following reflects the income and share data used in the earnings per share computations:

	2013	*2012*
Profit for the year attributable to ordinary equity holders (AED 000)	**4,774,374**	4,154,345
Deduct: Interest on capital notes (AED 000)	**(157,174)**	(240,000)
Profit attributable to ordinary equity holders (AED 000)	**4,617,200**	3,914,345
Weighted average number of ordinary shares in issue (000's)	**3,000,000**	3,000,000
Basic and diluted earnings per share (AED)	**1.54**	1.30

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2013 *AED 000*	*2012* *AED 000*
Cash and balances with Central Banks	**15,944,554**	12,844,336
Due from banks and financial institutions	**22,864,465**	18,329,081
	38,809,019	31,173,417
Less: Balances with U.A.E. Central Bank maturing after three months of placement	**7,000,000**	7,000,000
Less: Mandatory cash reserve with U.A.E. Central Bank	**4,382,713**	3,463,744
Less: Due from banks and financial institutions maturing after three months of placement	**3,522,668**	3,389,272
Cash and cash equivalents	**23,903,638**	17,320,401

Geographic analysis of cash and balances with Central Bank and due from banks and financial institutions is as follows:

U.A.E	**21,336,781**	18,941,485
Europe	**6,417,180**	3,746,223
USA	**3,313,141**	446,289
Asia	**3,900,714**	1,778,550
Rest of the world	**3,841,203**	6,260,870
	38,809,019	31,173,417

26 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising directors, major shareholders, key management and their related concerns, at commercial interest and commission rates. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. All loans and advances to related parties are performing advances and are free of any provision for impaired loans and advances.

The following transactions have been entered into with related parties:

	2013 *AED 000*	*2012* *AED 000*
Board members, key management personnel and associated companies		
Loans and advances	**6,074,645**	6,368,904
Customers' deposits	**5,726,987**	3,823,330
Commitments and contingent liabilities	**1,728,405**	875,672
Interest and commission income	**138,695**	316,355
Interest expense and Islamic financing expense	**91,668**	85,643
Associates		
Loans and advances to customers	**1,196**	876,290
Customers' deposits	**161,077**	95,046
Commitments and contingent liabilities	**555,260**	756,263
Interest and commission income	**5,590**	44,315
Interest expense and Islamic financing expense	**916**	3,314

26 RELATED PARTY TRANSACTIONS continued

	2013 *AED 000*	*2012* *AED 000*
Compensation of key management personnel:		
Short term employee benefits	**101,541**	89,569
Post employment benefits	**10,804**	12,617

In addition to amounts disclosed above, Board of Directors remuneration amounting to AED 31,500 thousand (2012: AED 28,000 thousand) has been included in the consolidated statement of comprehensive income and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

27 COMMITMENTS AND CONTINGENT LIABILITIES

The Bank has the following commitments and contingent liabilities at 31 December:

	2013 *AED 000*	*2012* *AED 000*
Contingent liabilities:		
Acceptances	**4,525,016**	4,456,375
Letters of credit	**29,468,971**	25,696,127
Guarantees	**50,010,780**	43,541,455
	84,004,767	73,693,957
Commitments:		
Commitments to extend credit maturing within one year	**5,875,627**	2,943,782
Commitments for future capital expenditure	**1,538,662**	1,430,169
Commitments for future private equity investments	**775,172**	517,583
	8,189,461	4,891,534
Total commitments and contingent liabilities	**92,194,228**	78,585,491

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

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers in the event of a specific act such as the export or import of goods or upon the failure of the customer to perform under the terms of a contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

Commitments to extend credit represent contractual irrevocable commitments to make loans 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.

28 DERIVATIVES

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

	Positive fair value AED 000	Negative fair value AED 000	Notional amount Total AED 000	***Notional amounts by term to maturity*** Within 3 months AED 000	3-12 months AED 000	1-5 years AED 000	More than 5 years AED 000
At 31 December 2013							
Derivatives held for trading:							
Forward foreign exchange contracts	**174,461**	**211,312**	**39,939,567**	**14,942,540**	**23,481,795**	**1,515,232**	-
Interest rate swaps, caps and collars	**248,953**	**308,981**	**13,137,725**	-	**2,373,471**	**4,845,772**	**5,918,482**
Commodity linked swaps	-	**16,120**	**734,600**	-	-	**734,600**	-
Equity swaps	-	-	**160,132**	-	-	**160,132**	-
Swaptions	**2,810**	**2,810**	**1,469,200**	-	-	**1,469,200**	-
Options	**39,028**	**38,831**	**9,314,711**	**349,754**	**3,251,380**	**5,713,577**	-
Futures	**1,410**	**793**	**38,347**	**38,347**	-	-	-
	466,662	**578,847**	**64,794,282**	**15,330,641**	**29,106,646**	**14,438,513**	**5,918,482**
Derivatives held as a fair value hedge:							
Interest rate swaps	**34,896**	**28,384**	**3,363,951**	-	-	**1,053,087**	**2,310,864**
Cross currency swaps	**126,660**	**101,594**	**3,206,570**	-	-	**2,422,528**	**784,042**
	161,556	**129,978**	**6,570,521**	-	-	**3,475,615**	**3,094,906**
Total	**628,218**	**708,825**	**71,364,803**	**15,330,641**	**29,106,646**	**17,914,128**	**9,013,388**
At 31 December 2012							
Derivatives held for trading:							
Forward foreign exchange contracts	65,472	61,078	26,016,703	13,442,784	12,119,781	454,138	-
Interest rate swaps, caps and collars	453,488	553,282	13,997,867	2,022,851	256,994	4,476,343	7,241,679
Credit default swaps	102	-	73,460	73,460	-	-	-
Commodity linked swaps	-	31,605	734,600	-	-	734,600	-
Equity swaps	-	-	158,434	-	-	-	158,434
Swaptions	12,421	12,421	1,469,200		-	-	1,469,200
Options	10,578	11,875	6,603,216	950,560	2,261,951	3,390,705	-
Futures	1,322	-	1,209,222	1,174,169	35,053	-	-
	543,383	670,261	50,262,702	17,663,824	14,673,779	9,055,786	8,869,313
Derivatives held as a fair value hedge:							
Interest rate swaps	3,920	131,670	2,714,659	200,000	-	400,000	2,114,659
Cross currency swaps	130,960	50,078	2,037,269	-	-	1,661,711	375,558
	134,880	181,748	4,751,928	200,000	-	2,061,711	2,490,217
Total	678,263	852,009	55,014,630	17,863,824	14,673,779	11,117,497	11,359,530

Derivative product types

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

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

28 DERIVATIVES continued

Derivative product types continued
Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies.

Credit default swaps transfer the credit exposure of debt securities between parties. The buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. Accordingly, the risk of default is transferred from the holder of the debt security to the seller of the swap.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

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

Derivatives held for trading purposes
Most of the Bank's derivative trading activities relate to offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks and manage their market positions with the expectation of making profit from favourable movements in prices or rates.

Derivatives held for hedging purposes
As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to interest rate risks.

The total profit on interest rate swaps held as fair value hedges amounted to AED 75,344 thousand (2012: loss of AED 120,059 thousand). A corresponding loss / gain has been adjusted against the carrying value of the related hedged asset.

29 SEGMENTAL INFORMATION

A segment represents a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Operating segment information
For management purposes the Bank is organised into five operating segments:

Wholesale Banking Group ("WBG") – Covering corporate and institutional clients, as well as high net worth individuals, through dedicated client segments. WBG offers credit facilities, Global Transaction Services, Debt Markets (loan, bond, structured finance), Islamic Finance, Treasury and Global Markets products to both UAE and international clients.

Treasury and Global Markets, including investment operations - Principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and deposits with other banks.

29 SEGMENTAL INFORMATION continued

Operating segment information continued

Consumer banking - Principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and funds transfer facilities.

Real estate activities – Principally the acquisition, leasing, brokerage, management and resale of properties carried out through its subsidiaries and associate companies.

Other operations comprising mainly the Head Office including unallocated costs, subsidiaries and associates other than above categories.

Operating segmental information for the year ended 31 December 2013 was as follows:

	Wholesale Banking Group						
	UAE Operations	*International banking*	*Treasury &Global markets*	*Consumer banking*	*Real estate*	*Other operations*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*
Assets	68,556,042	12,387,080	52,368,689	46,660,838	9,873,699	5,186,022	195,032,370
Liabilities	114,577,711	6,283,282	4,182,216	33,696,653	1,332,461	3,189,576	163,261,899
Operating income excluding associates	2,791,402	473,215	1,114,941	3,385,715	482,111	174,197	8,421,581
Net interest income and income from Islamic financing	1,955,462	219,885	782,194	2,782,180	-	253,841	5,993,562
Share of profit from associates	-	-	-	-	(14,523)	13,503	(1,020)
Provision for impairment of loans and advances and available for sale investments	(538,852)	(70,612)	(34,026)	(625,619)	-	(550,811)	(1,819,920)
Profit attributable to equity holders of the Bank	1,889,419	271,291	996,607	1,867,816	414,576	(665,335)	4,774,374
Other segment information							
Investment in associates	-	-	-	-	124,805	22,340	147,145
Capital expenditure	-	-	-	-	251,799	242,627	494,426
Depreciation	-	-	-	-	1,903	60,994	62,897

29 SEGMENTAL INFORMATION continued

Operating segment information for the year ended 31 December 2012 was as follows:

	Wholesale Banking Group						
	UAE Operations	*International banking*	*Treasury & Global markets*	*Consumer banking*	*Real estate*	*Other operations*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*
Assets	68,110,862	8,529,002	44,728,622	41,191,577	9,403,617	3,069,929	175,033,609
Liabilities	98,271,120	6,116,386	5,292,473	26,766,312	1,386,108	7,338,120	145,170,519
Operating income excluding associates	2,744,286	306,616	810,403	2,967,982	201,102	196,298	7,226,687
Net interest income and income from Islamic financing	1,981,037	160,526	665,745	2,526,238	-	186,838	5,520,384
Share of profit from associates	-	-	-	-	25,435	17,649	43,084
Provision for impairment of loans and advances and available for sale investments	(577,608)	(18,941)	-	(508,903)	-	(547,676)	(1,653,128)
Profit attributable to equity holders of the Bank	1,836,778	181,047	741,420	1,767,200	189,250	(561,350)	4,154,345
Other segment information							
Investment in associates	-	-	-	-	139,328	253,637	392,965
Capital expenditure	-	-	-	-	532,551	55,550	588,101
Depreciation	-	-	-	-	3,373	58,623	61,996

The Bank's operations in UAE contribute the majority of its revenues. Also, the Bank's non-current assets in UAE represent a significant portion of its total non-current assets.

30 RISK MANAGEMENT

30.1 Introduction

The core business of a bank is to manage risk and provide returns to the shareholders in line with the accepted risk profile. In the course of its regular business, the Bank gets exposed to multiple risks notably credit risk, market risk, liquidity risk, interest rate risk, operational risk and other risks like compliance risk, strategic risk and reputation risks. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Bank. This tone is set right at the top from the Board of Directors ("BOD") and gets implemented through a well-defined risk management structure and framework.

Composition of Board

The BOD is responsible for the overall direction, supervision and control of the Bank. The day-to-day management of the Bank is conducted by the BOD committees, the Managing Director ("MD") and the Chief Executive Officer ("CEO"). The BOD has overall responsibility for the Bank including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. The BOD currently comprises six members. Each Director holds his position for three years, which may then be renewed for a further three year term. The Board of Directors of the Bank's subsidiaries have the same responsibilities towards their respective entities as the Bank's Directors have towards the Bank.

30 RISK MANAGEMENT continued

30.1 Introduction continued

Corporate Governance Framework:

The Bank has a comprehensive corporate governance framework that puts in place rules, processes, policies and practices by which the Bank is managed by its BOD and Senior Management. The BOD drives the implementation of the corporate governance standards and is the custodian of the corporate governance manual. The Bank's corporate governance standards bind its signatories to the highest standards of professionalism and due diligence in the performance of their duties. The Group Chief Risk Officer ("GCRO") is the custodian of the charters for the management committees. These charters are subject to annual review that is driven by the governance function and is approved by the BOD.

Risk Management Structure

The BOD approves risk management plans for the Bank, its subsidiaries, its associates and international offices including representative offices and overseas branches. Under authority delegated by the BOD, Board level risk committee - Risk and Compliance Management Committee ("RCMC") through its separately convened risk management meetings formulates high-level enterprise risk management policy, exercises delegated risk authorities and oversees the implementation of risk management framework and controls. The GCRO functionally reports to this committee.

Board Level Committees within the FGB Group

Remuneration and Nomination Committee

The Remuneration and Nomination Committee ("REMCO") comprises of three members of the BOD (including the MD) and some members from the Senior management. REMCO has the overall responsibility of setting the criteria and processes for identification of candidates for the BOD, Board level committees and Senior Management. The committee recommends the appointment or termination of any director to the Board and ensures a smooth succession of Board and Senior Management. The committee takes care of the performance assessment of the Board and key management personnel. The committee approves and oversees reward design and ensures that the reward is appropriate and consistent with the Bank's culture, business and risk strategy, performance and control environment as well as with any legal or regulatory requirements. REMCO also oversees the Bank's HR policies and rewards policy framework. The composition, guiding principles and detailed roles and responsibilities are covered in REMCO's charter.

Executive Committee

Executive Committee ("EC") comprises of three members of the BOD (including the MD) and the CEO. EC oversees the implementation of the Bank's policies, BOD's resolutions and practices the competencies granted to it by the BOD. The EC oversees the Bank's overall management and ensures that the Bank's business policies and practices are in line with the Bank's business interests and are in alignment with sound corporate governance and compliance standards including provisions of the UAE Central Bank. The composition, guiding principles and detailed roles and responsibilities are covered in the EC charter.

Risk and Compliance Management Committee

The Risk and Compliance Management Committee ("RCMC") comprises three members of the BOD (including MD) and the GCRO. Under authority delegated by the BOD, RCMC plays a key role in the fulfilment of corporate governance standards and overall risk management by assisting the BOD in formulation of strategy for enterprise-wide risk management, evaluation of overall risks faced by the Bank, alignment of risk policies with business strategies, determination of the level of risks which will be in the best interest of the Bank through risk based capital planning. The RCMC, by virtue of powers delegated to it by the BOD, also approves changes in risk management policies as and when required. The composition, guiding principles and detailed roles and responsibilities are covered in the RCMC's charter.

30 RISK MANAGEMENT continued

30.1 Introduction continued

Audit Committee
This committee is principally responsible for reviewing the internal audit program, considering the major findings of each internal audit review, making appropriate investigations and responses and ensuring coordination between the internal and external auditors and keeping under review the effectiveness of internal control systems, and in particular reviewing the external auditor's management letter and management's response. Members of this committee include three members of the BOD including the MD along with the Head of Internal Audit. The composition, guiding principles and detailed roles and responsibilities are covered in the Audit Committee's charter.

Management Level Committees within the Bank
Executive Management Committee
The Executive Management Committee ("EMCO") is a senior management level committee appointed by the EC that has been entrusted with the role of supporting the CEO to determine and implement the Bank's strategy as approved by the BOD. The key responsibilities of EMCO include decisions on the Bank's strategy, annual budgets, capital management and policies and procedures for the entire Bank. The composition, guiding principles and detailed roles and responsibilities of EMCO are covered in the EMCO's charter.

Wholesale Banking Credit Committee
The Bank has a management level Wholesale Banking Credit Committee ("WBCC") which assists the BOD and Board Committees to put into operation the wholesale credit risk strategy and policies and procedures pertaining to the wholesale banking business. The primary objective of the WBCC is to assist in the development and implementation of wholesale banking business credit strategy and policies and procedures. The composition, guiding principles and detailed roles and responsibilities of WBCC are covered in the WBCC's charter.

Consumer Banking Credit Committee
The Bank has a management level Consumer Banking Credit Committee ("CBCC") which assists the BOD and Board Committees to put into operation the consumer banking credit strategy and policies and procedures. The primary objective of the CBCC is to finalize the consumer banking credit criteria and set portfolio level limits, in line with the defined business and credit risk strategy of the Bank. The composition, guiding principles and detailed roles and responsibilities of CBCC are covered in the CBCC's Charter.

Asset Liability Committee
The Bank has a management level Asset Liability Committee (ALCO) to assist the BOD and Board Committees in fulfilling its responsibility to oversee the Bank's asset and liability management (ALM) related responsibilities. The objective of ALCO is to maintain constant oversight of interest rate risk and liquidity risk with the primary goal of achieving optimal return while ensuring adequate levels of liquidity within an effective risk control framework. The composition, guiding principles and detailed roles and responsibilities of ALCO are covered in the ALCO's charter.

Investment Management Committee
The Bank has a management level Investment Management Committee (IMCO) for overseeing and providing guidance to treasury's trading and investment activities. IMCO has to ensure effective management of market risks in accordance with the principles laid down in the market risk management policy. IMCO provides approval of investment limits and individual investment proposals within those limits. Its objective is to ensure that investment decisions conform to the investment policy and are within the overall limits approved by the BOD. The composition, guiding principles and detailed roles and responsibilities of IMCO are covered in the IMCO's charter.

30 RISK MANAGEMENT continued

30.1 Introduction continued

Management Level Committees within the Bank continued

Compliance Committee

The Bank has a management level Compliance Committee to assist the BOD and Board Committees in fulfilling their objective of overseeing the Bank's compliance related responsibilities. The committee oversees the Bank's compliance with respect to legal and regulatory requirements and relevant policies and procedures including code of ethics and matters relating to operating and non-operating financial risk and also ensures the Bank's compliance with Anti Money Laundering ("AML") and other relevant legislation issued by UAE Central Bank and / or Securities and Commodities Authority and / or other regulatory authorities, as applicable. The composition, guiding principles and detailed roles and responsibilities of Compliance Committee are covered in the Compliance Committee charter.

Operational Risk Committee

The Bank has a management level Operational Risk Committee (ORC) to assist the BOD and Board Committees in fulfilling their objective of overseeing the Bank's Operational Risk Management, Business Continuity and Information Security responsibilities. Responsibility areas for ORC include management and reporting of operational risk profile, ratifying information security policy and procedures, integrated business continuity management policy and business recovery strategy of the Bank. The composition, guiding principles and detailed roles and responsibilities of Operational Risk Committee are covered in the ORC's charter.

Technology Steering Committee

The Bank has a management level Technology Steering Committee (TSC) to assist the BOD and Board Committees in fulfilling their responsibilities related to setting of Information Technology (IT) related strategic goals and for successful implementation of the IT objectives. TSC ensures the alignment of the IT strategy with the Bank's business strategy and a successful implementation of the IT strategy. The composition, guiding principles and detailed roles and responsibilities of TSC are covered in the TSC's charter.

Human Resources Steering Committee

The Bank has a management level Human Resources Steering Committee ("HRSC") to assist the BOD in fulfilling its responsibilities related to the human resource policies applicable to the Bank's staff. The objectives of the committee include implementation of recommendations made by the REMCO regarding compensation, benefits, rewards, working environment, employee contracts' terms and conditions and other issues that form part of the Human Resources ("HR") strategy. HRSC also has the responsibility to put in place an appropriate whistle blowing policy to enable employees to raise concerns in a responsible and effective manner with a sense of protection. The composition, guiding principles and detailed roles and responsibilities of HRSC are covered in the HRSC's charter.

Real Estate Committee

The Bank has a management level Real Estate Committee ("RECO") to assist the BOD with overseeing and approving the Bank's real estate investment activities in line with effective market and liquidity risk management practices in accordance with the Bank's risk policy. RECO is responsible for providing oversight, guidance and strategic input on the action plans for the Group's real estate investment, review real estate budgets and provide oversight and guidance for real estate investment limits and risk appetite. The composition, guiding principles and detailed roles and responsibilities of RECO are covered in the RECO's charter.

30.2 Enterprise Risk Management Framework and Structure

Enterprise Risk Management Group

The Bank has a centralized risk management function led by the GCRO. The Head of Enterprise Risk Management Group reports to the GCRO. The function comprises Credit Risk Management Unit (CRMU), Market Risk Management Unit (MRMU), ALM Risk Management Unit (ALMRMU), Operational Risk Management Unit (ORMU), Information Security, Business Continuity Management, Compliance unit and Basel II unit.

30 RISK MANAGEMENT continued

30.2 Enterprise Risk Management Framework and Structure continued

Enterprise Risk Management Policy Framework
The Bank's Enterprise Risk Management Policy (ERMP) framework aims to accomplish its core values and purpose of being a world class organization maximizing its risk adjusted returns for all stakeholders by establishing an enterprise wide risk management framework across the Bank including local and international branches, subsidiaries, associates and foreign representative offices. Core objective of ERMP is to provide a reasonable degree of assurance to the BOD that the risks threatening the Bank's achievement of its core purpose are being identified, measured, monitored and controlled through an effective integrated risk management system. The ERMP framework consists of specific policy documents covering all material risks across the Bank; which include ERM policy, wholesale banking credit risk policy, consumer banking credit risk policy, market risk policy, operational risk policy, ALM risk policy, AML and Compliance risk policy, IT and Information security risk policy, Internal Capital Adequacy Assessment Process ("ICAAP") policy, new products approval policy and Model governance policy. In addition to these risk management policies, the Bank has also put in place detailed operational policies, procedures and programs wherever needed. Other relevant risks such as reputation risk and strategy risk are covered under the ERM policy.

30.3 Overview of Enterprise Risk Management Process

30.3.1 Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Counterparty credit risk arising from derivative financial instruments is limited to those with positive fair values, as recorded in the balance sheet. Credit risk exposure also emerges from off balance sheet exposures like letters of guarantee, guarantees and committed lines of credit which may require the Bank to make payments to customers or on their behalf.

Credit risk identification and assessment at FGB Group is carried out through a comprehensive mechanism comprising three levels of defence. The first level of defence lies with the business units along with the credit analysis unit that assesses risk on a customer and facility level. The second level of defence is in the form of credit risk management unit that assesses credit risk on a portfolio basis and maintains credit risk policies and credit risk rating models up to date. Internal Audit acts as a third level of defence with regular reviews of credit analysis and the risk functions to check the compliance with policies and procedures of the Bank. The unit also reviews the policy documents on a regular basis.

As a part of credit risk monitoring and control framework, the Bank undertakes regular risk monitoring and provides senior management and BOD assurance that established controls in the form of exposure limits are functioning properly. Risk monitoring is carried out at both individual and portfolio levels by appropriate authorities along several parameters which include credit quality, provisioning levels, exposure limits across several dimensions, financial and operating performance, account conduct, end use of funds, adequacy of credit risk mitigants, adherence to financial and non-financial covenants, recovery performance, rating system performance among others.

The Bank has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation (CRM) include netting agreements, collaterals, guarantees, credit derivatives, Stand By Letter Of Credit (SBLC) and Comfort Letters. The Bank ensures that all documentation used in collateralized transactions and for documenting on and off-balance sheet netting, guarantees, credit derivatives and collateral is binding on all parties and is legally enforceable in all relevant jurisdictions. The Bank also ensures that all the documents are reviewed by appropriate authority and have appropriate legal opinions to verify and ensure its enforceability.

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.1 Credit risk continued

The Bank has put in place a comprehensive risk reporting mechanism that provides a wide array of risk related information to concerned audience. Credit risk reporting includes the monthly snapshots for each of the business segments and sub units, a 360 degree view of the credit risk exposures and monthly credit risk pack with granular information on sensitive, watch list accounts, non performing loans, excesses, restructured and rescheduled accounts.

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

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	***Gross maximum exposure 2013 AED 000***	*Gross maximum exposure 2012 AED 000*
Balances with Central Banks	3	**15,574,161**	12,531,905
Due from banks and financial institutions	25	**22,864,465**	18,329,081
Loans and advances	4	**126,941,519**	114,644,479
Investments		**15,318,645**	15,444,451
Other assets	8	**2,857,716**	3,091,088
Total		**183,556,506**	164,041,004
Derivatives held for trading			
Forward foreign exchange contracts	28	**174,461**	65,472
Interest rate swaps, caps and collars	28	**248,953**	453,488
Credit default swaps	28	**-**	102
Swaptions	28	**2,810**	12,421
Options	28	**39,028**	10,578
Futures	28	**1,410**	1,322
		466,662	543,383
Derivatives held as a fair value hedge:			
Interest rate swaps	28	**34,896**	3,920
Cross currency swaps	28	**126,660**	130,960
Total		**161,556**	134,880
Contingent liabilities	27	**84,004,767**	73,693,957
Commitments	27	**5,875,627**	2,943,782
Total		**89,880,394**	76,637,739
Total credit risk exposure		**274,065,118**	241,357,006

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

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.1 Credit risk continued

Credit risk concentration

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

The Bank assesses credit concentration risk on a regular basis through regular monitoring and reporting of credit portfolio. Credit concentration risk is monitored and controlled through a comprehensive limits framework in the form of exposure limits at both individual and portfolio levels across several dimensions like single name, industry, geography. The Bank mitigates this risk through its constant efforts on diversifying its exposures across a wider customer base, industries and geographies.

Concentration of risk is managed by customer, counterparty, by geographical region and by industry sector. The funded and non-funded credit exposure to the top 5 borrowers as of 31 December 2013 is AED 24,050,138 thousand (2012: AED 20,693,105 thousand) before taking account of collateral or other credit enhancements and AED 19,383,624 thousand (2012: AED 14,277,312 thousand), net of such protection.

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

	2013 *AED 000*	*2012* *AED 000*
Geographic region		
UAE	**142,170,391**	134,477,889
Other Arab countries	**10,151,303**	9,982,822
Europe	**10,250,103**	6,833,806
USA	**3,593,432**	2,468,539
Asia	**15,880,200**	9,631,105
Rest of the world	**1,511,077**	646,843
Financial assets subject to credit risk	**183,556,506**	164,041,004
Other assets	**11,475,864**	10,992,605
Total assets	**195,032,370**	175,033,609
Industry sector		
Commercial and business	**78,425,237**	78,455,000
Personal	**47,958,928**	41,191,577
Government	**17,711,304**	16,551,305
Banks and financial institutions	**36,930,200**	25,497,589
Others	**2,530,837**	2,345,533
Financial assets subject to credit risk	**183,556,506**	164,041,004
Other assets	**11,475,864**	10,992,605
Total assets	**195,032,370**	175,033,609

Further geographical analysis of cash and balances with Central Banks, due from banks and financial institutions and investments are set out in notes 5 and 25 to the consolidated financial statements.

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.1 Credit risk continued

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory, trade receivables and securities,
- For personal lending, assignment of salaries in favour of the Bank.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries, but the benefits are not included in the above table.

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

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

The Bank also makes use of master netting agreements with counterparties.

At 31 December 2013, the fair value of collateral that the Bank holds relating to loans individually determined to be impaired amounts to AED 1,703,481 thousand (2012: AED 562,314 thousand). The collateral consists of cash, securities, letters of guarantee and properties.

Credit quality per class of financial assets

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

	Neither past due nor impaired			
	Pass grade AED 000	*Watch grade AED 000*	*Past due or individually impaired AED 000*	*Total AED 000*
2013				
Cash and balances with Central Banks	**15,574,161**	-	-	**15,574,161**
Due from banks and financial institutions	**22,864,465**	-	-	**22,864,465**
Loans and advances	**117,539,123**	**5,977,999**	**7,329,488**	**130,846,610**
Other assets	**3,096,585**	-	-	**3,096,585**
Investments	**15,318,645**	-	-	**15,318,645**
Total	**174,392,979**	**5,977,999**	**7,329,488**	**187,700,466**
2012				
Cash and balances with Central Banks	12,531,905	-	-	12,531,905
Due from banks and financial institutions	18,329,081	-	-	18,329,081
Loans and advances	103,770,767	7,081,940	7,543,523	118,396,230
Other assets	3,091,088	-	-	3,091,088
Investments	15,444,451	-	-	15,444,451
Total	153,167,292	7,081,940	7,543,523	167,792,755

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.1 Credit risk continued

Aging analysis of past due but not impaired loans

	Less than 30 days AED 000	*31 to 60 days AED 000*	*61-90 days AED 000*	*More than 91 days AED 000*	*Total AED 000*
31 December 2013					
Past due but not impaired loans and advances	**1,598,592**	**588,707**	**318,853**	**535,943**	**3,042,095**
Past due and impaired loans and advances					**7,329,488**
Less:					
Past due but not impaired loans and advances					**(3,042,095)**
Impaired loans and advances (note 4):					
Loans and advances under restructuring					**456,459**
Other loans and advances					**3,830,934**
					4,287,393
Impaired loans, excluding loans and advances under restructuring					**3,830,934**
31 December 2012					
Past due but not impaired loans and advances	2,023,599	633,045	444,738	536,487	3,637,869
Past due and impaired loans and advances					7,543,523
Less:					
Past due but not impaired loans and advances					(3,637,869)
Impaired loans and advances (note 4):					
Loans and advances under restructuring					456,459
Other loans and advances					3,449,195
					3,905,654
Impaired loans, excluding loans and advances under restructuring					3,449,195

See note 4 for more detailed information with respect to the provision for impairment losses on loans and advances.

Renegotiated loans

The total carrying amount of loans and advances whose terms have been renegotiated as of 31 December 2013 amounted to AED 3,164,698 thousand (2012: AED 3,801,472 thousand).

Impairment assessment

The Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the borrower;
- A breach of contract such as default of payment;
- If it becomes probable that the customer will enter bankruptcy or other financial reorganization; and
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.2 Liquidity risk and funding management

Liquidity risk is defined as the risk to earnings and capital arising from the Bank's inability to meet its obligations when they become due, without incurring unacceptable losses. Liquidity risk often results in risks related to reputation, legal and business continuity as it impacts the ability to fulfill financial obligations and often have a systemic impact.

The Bank monitors several indicators for identification of liquidity risks on its portfolio. These indicators include frequency of treasury accessing money market for funds, illiquidity of trading positions, margin calls on unsettled positions requiring cash outflow, downgrading by external rating agencies, lowering of counterparty limits by other banks, widening of bid-offer spread in case of traded instruments signaling lower liquidity among others.

The Bank has system capabilities to measure the liquidity gaps considering the contractual, as well as the behavioral maturity of various products. These gaps are monitored against certain internal benchmarks for ascertaining sufficiency of liquidity. Apart from undertaking liquidity gap analysis, stress testing is also undertaken on a periodic basis to assess the impact of liquidity risk on the position of the balance sheet. Besides, Basel III and regulatory liquidity ratios are also monitored on a regular basis. Risk management function presents all these risk reports to ALCO for review on a monthly basis for review and deliberations.

The sufficiency of net liquid assets to cover the short term negative gaps based on behavioral maturity is ascertained and remedial actions required, if any, are undertaken. To guard against liquidity risk, the Bank acts actively to diversify its funding sources and maintains a healthy balance of cash and cash equivalents, and readily marketable securities. In addition, the Bank has committed lines of credit that it can access to meet liquidity needs and also maintains mandatory cash reserve deposits with the Central Bank of U.A.E. equal to 1% of customer time deposits and 14% of customer current, call and savings accounts. Also, for extreme cases of stress on liquidity, a contingency funding plan has been put in place.

The Bank has put in place a comprehensive risk reporting mechanism that provides wide array of risk related information to diverse audience. The ALM risk reporting includes the monthly currency wise and geography wise gap reports for liquidity risk presented to ALCO for review.

Analysis of financial assets and financial liabilities by remaining contractual maturities

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

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
ASSETS					
Cash and balances with Central Banks	8,944,554	7,000,000	-	-	15,944,554
Due from banks and financial institutions	20,446,568	2,417,897	-	-	22,864,465
Loans and advances, net	32,391,066	17,572,650	42,842,120	34,135,683	126,941,519
Investments	1,626,665	3,366,992	6,900,734	5,219,029	17,113,420
Other assets	3,167,107	-	-	-	3,167,107
Financial assets	66,575,960	30,357,539	49,742,854	39,354,712	186,031,065
Non-financial assets					9,001,305
Total assets					195,032,370
LIABILITIES					
Due to banks	4,805,618	399,024	-	-	5,204,642
Customers' deposits	92,240,250	28,313,440	2,510,880	14,888,962	137,953,532
Term loans	-	1,536,783	7,956,801	2,235,511	11,729,095
Sukuk financing instruments	-	-	4,223,950	-	4,223,950
Other liabilities	4,150,680	-	-	-	4,150,680
Total liabilities	101,196,548	30,249,247	14,691,631	17,124,473	163,261,899

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.2 Liquidity risk and funding management continued

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

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
ASSETS					
Cash and balances with Central Banks	5,844,336	7,000,000	-	-	12,844,336
Due from banks and financial institutions	17,908,523	420,558	-	-	18,329,081
Loans and advances, net	31,704,743	14,546,090	35,945,340	32,448,306	114,644,479
Investments	2,882,227	1,203,447	8,675,361	4,517,231	17,278,266
Other assets	3,147,027	-	-	-	3,147,027
Financial assets	61,486,856	23,170,095	44,620,701	36,965,537	166,243,189
Non-financial assets					8,790,420
Total assets					175,033,609
LIABILITIES					
Due to banks	3,182,645	736,853	-	-	3,919,498
Customers' deposits	62,525,258	39,625,408	4,309,192	12,844,776	119,304,634
Term loans	-	800,714	12,540,554	59,503	13,400,771
Sukuk financing instruments	-	-	4,223,950	-	4,223,950
Other liabilities	4,321,666	-	-	-	4,321,666
Total liabilities	70,029,569	41,162,975	21,073,696	12,904,279	145,170,519

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and interest payable to maturity.

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2013					
LIABILITIES					
Due to banks	**4,810,509**	**401,013**	**-**	**-**	**5,211,522**
Customers' deposits	**92,488,424**	**28,785,958**	**2,602,388**	**14,914,290**	**138,791,060**
Term loans	**53,663**	**1,691,886**	**8,560,284**	**2,344,878**	**12,650,711**
Sukuk financing instruments	**82,478**	**82,478**	**4,591,015**	**-**	**4,755,971**
Other liabilities	**4,150,680**	**-**	**-**	**-**	**4,150,680**
Total liabilities	**101,585,754**	**30,961,335**	**15,753,687**	**17,259,168**	**165,559,944**
2012					
LIABILITIES					
Due to banks	3,185,019	742,855	-	-	3,927,874
Customers' deposits	62,801,407	40,407,217	4,411,348	12,876,472	120,496,444
Term loans	97,379	1,100,247	13,665,369	61,133	14,924,128
Sukuk financing instruments	82,478	82,478	4,755,971	-	4,920,927
Other liabilities	4,321,666	-	-	-	4,321,666
Total liabilities	70,487,949	42,332,797	22,832,688	12,937,605	148,591,039

The disclosed financial instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.2 Liquidity risk and funding management continued

The following table shows the reconciliation of the carrying amounts of derivatives and their future cash flows.

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2013					
Inflows	**93,982**	**252,538**	**767,337**	**441,037**	**1,554,894**
Outflows	**(130,849)**	**(353,604)**	**(774,942)**	**(367,331)**	**(1,626,726)**
Net	**(36,867)**	**(101,066)**	**(7,605)**	**73,706**	**(71,832)**
2012					
Inflows	124,181	98,960	624,335	353,358	1,200,834
Outflows	(113,944)	(152,705)	(768,934)	(330,985)	(1,366,568)
Net	10,237	(53,745)	(144,599)	22,373	(165,734)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2013					
Contingent liabilities	**57,847,900**	**13,230,289**	**12,926,578**	**-**	**84,004,767**
Commitments	**257,307**	**6,640,496**	**1,291,658**	**-**	**8,189,461**
Total	**58,105,207**	**19,870,785**	**14,218,236**	**-**	**92,194,228**
2012					
Contingent liabilities	49,357,195	11,869,365	12,467,397	-	73,693,957
Commitments	232,675	4,166,272	492,587	-	4,891,534
Total	49,589,870	16,035,637	12,959,984	-	78,585,491

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

30.3.3 Interest rate risk in the banking book

Interest rate risk in the banking book is defined as the risk of loss to bank's earnings as well diminution in the value of bank's capital due to adverse changes in interest rates.

The Bank follows a globally accepted approach of recognizing all interest bearing / interest sensitive assets and liabilities - both on- and off- balance sheet in order to assess the impact of interest rate risk on its portfolio. Further, the types of interest rate risk are identified (repricing risk, basis risk, yield curve risk) for sound management of interest rate risk. Special care is taken in the identification of risk associated with interest rate derivatives or structured products, where sensitivity to interest rates are often in conjunction with some other underlying risk factors. Positions in such structured products and derivatives are broken down into underlying factors for identification of the interest rate risk type.

The Bank has system capabilities to measure the interest rate sensitive gaps across tenors considering the repricing nature of all its assets and liabilities. The sensitivity analysis i.e. the impact of a parallel shift in the interest rate curves on the Net Interest Income (NII) and Equity is ascertained and presented to ALCO for review on a monthly basis. Hedging decisions required to mitigate this risk, if any, are decided / approved by ALCO and executed by Treasury.

30 RISK MANAGEMENT continued.

30.3 Overview of Enterprise Risk Management Process continued

30.3.3 Interest rate risk continued

The following table estimates the sensitivity to a reasonable possible change in interest rates on the Bank's income statement. The sensitivity of the income statement is the effect of the assumed changes (whether increase or decrease) in interest rates on the net interest income for one year, based on the interest rate sensitive assets and financial liabilities, denominated in various currencies, held at 31 December 2013 and 2012, with all other variables held constant.

Currency	*AED*	*USD*	*EUR*	*GBP*	*Others*
Assumed change in interest rates	0.50%	0.50%	0.50%	0.50%	0.50%
Impact on net interest income from increase in interest rates:					
2013 (AED 000)	**44,079**	**57,581**	**(2,057)**	**(368)**	**(830)**
2012 (AED 000)	65,410	64,982	(4,446)	169	(3,371)
Impact on net interest income from decrease in interest rates:					
2013 (AED 000)	**(44,079)**	**(57,581)**	**2,057**	**368**	**830**
2012 (AED 000)	(65,410)	(64,982)	4,446	(169)	3,371

(Amounts in brackets reflect decreases in net interest income)

The sensitivity of equity is calculated by revaluing interest rate sensitive available for sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates. At 31 December 2013 and 2012, the effect of the assumed changes in interest rates on equity is as follows:

Currency	*USD*	*EUR*	*KWD*	*GBP*	*SGD*	*AED*
Assumed change in interest rates	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Impact on equity from increase in interest rates:						
2013 (AED 000)	**(132,275)**	**(1,350)**	**(488)**	**(891)**	**(1,492)**	**(108)**
2012 (AED 000)	(61,680)	(831)	(482)	-	-	-
Impact on equity from decrease in interest rates:						
2013 (AED 000)	**132,275**	**1,350**	**488**	**891**	**1,492**	**108**
2012 (AED 000)	61,680	880	505	-	-	-

30.3.4 Market risk

Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates (currency risk), equity, bonds and prices for other investment instruments (equity price risk).

Market risk is managed through an effective control framework with three levels of defence. The first level is the Treasury Group that carries out the business in line with comprehensive limit structure on exposures across products and desks (exposure limits), sensitivities (risk limits) as well as stop loss limits. The second level of defence is the Market Risk management unit that establishes this limits framework and monitors these limits on a daily basis. Internal Audit department forms the third level of defence and reviews both the Treasury Group and the Market Risk Management Group on a regular basis for all their functions to check the compliance with documented policies and also check whether the policies are up to date.

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.4 Market risk continued
For market risk, exposure, risk and stop loss limits are monitored on a daily basis which allows the identification of level of exposure across asset classes, risk factors etc. These limits are checked for adherence prior to sanctioning of any fresh limits and enhancement of existing limits. Monitoring of these limits is undertaken across several dimensions: limit utilization versus the set exposure and delta limits, concentration of exposures, frequency of breaches of limits, size of breaches over the set exposure and stop loss limits, etc. The necessary decisions of exiting from the position or holding are made on the basis of these limits. From a risk control perspective these limits play a crucial role in controlling risk at a transaction level; at the same time FGB Group uses all necessary strategies pertaining to hedging, diversification, reshuffling of portfolio for a portfolio wide risk control.

As part of its market risk management, the Bank uses derivatives and other instruments to manage its market risk exposures. The risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate personnel within the Bank. The effectiveness of hedges is assessed and monitored on a regular basis.

A comprehensive risk reporting mechanism has been put in place that provides a wide array of risk related information to concerned audience. These reports reflect daily risk dashboards with detailed desk wise information on exposures / limit / P&L monitoring and monthly risk reports.

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2013 and 2012 on its monetary assets and liabilities and its forecast cash flows. The analysis estimates the effect of a reasonably possible movement of AED against other currencies, with all other variables held constant on the consolidated income statement.

Currency	*USD*	*EUR*	*GBP*	*Libyan Dinar*
Assumed change in exchange rates	1%	1%	1%	1%
Impact on net interest income from increase in exchange rates:				
2013 (AED 000)	**(42,279)**	**35**	**66**	**(3,698)**
2012 (AED 000)	(65,926)	531	(8)	(3,731)
Impact on net interest income from decrease in exchange rates:				
2013 (AED 000)	**42,279**	**(35)**	**(66)**	**3,698**
2012 (AED 000)	65,926	(531)	8	3,731

(Amounts in brackets reflect decreases in net interest income)

At 31 December 2013 and 2012, the effect of the assumed changes in exchange rates on equity is insignificant.

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.4 Market risk continued

Equity price risk

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

The following table estimates the sensitivity to a possible change in equity markets on the Bank's income statement. The sensitivity of the income statement is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through the income statement.

	Assumed level of change %	***Impact on net income 2013 AED 000***	*Impact on net income 2012 AED 000*
Investments carried at fair value through the income statement			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	**373**	1,578
Dubai Financial Market Index	5%	**94**	452
Net asset value of managed funds	5%	**9,226**	8,413
Other equity exchanges	5%	**5,151**	5,373
Unquoted	5%	**1,010**	1,012

The effect on equity as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2013 and 2012, due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Assumed level of change %	***Impact on equity 2013 AED 000***	*Impact on equity 2012 AED 000*
Available for sale investments			
Reference equity benchmarks:			
Net asset value of private equity funds	5%	**68,618**	69,901
Other equity exchanges	5%	**1,309**	1,430
Unquoted	5%	**3,957**	3,532

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit for one year, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is estimated at AED 417,347 thousand (2012: AED 369,555 thousand).

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.5 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, information technology and information security related risks but excludes strategic and reputation risk.

The Bank adopts the methodology of 'Self-Assessment' by various units on a bottom up approach for identification of operational risk. The assessment includes risks assessment on various processes across business and support units as well as setting of Key Risk Indicators (KRIs). The Bank is in the process of undertaking a Risk and Control Self-Assessment exercise wherein all business and support units would be assessing their risks and controls. An internal loss database that stores details pertaining to operational losses is also maintained.

The Bank monitors and controls operational risk across its processes through a framework comprising risk policies, manuals and detailed processes which serve as control points against operational risk, a proper delegation of authority and governance in the form of various committees, three lines of defense for risk management (Businesses, Risk and Audit). The Bank has adopted the "four-eye principle" that advocates the need for a maker and checker for all key transactions performed to limit and control operational risks in bank-wide activities. As a part of the operational risk mitigation process, risk mitigation plans are drawn up for every mismatch noticed in the risk assessment process as well as for breaches in the KRI thresholds.

30.3.6 Country risk

Country risk is the likelihood of economic, social, and political events in a foreign country negatively influencing the willingness or ability of state owned and/or privately owned customers in that country to pay their debts on time.

The Bank undertakes a detailed qualitative analysis pertaining to country risk as a part of the business decision process (credit risk modelling). These factors include economic, social and political stability in each country, the monetary policy, the foreign exchange control measure, the transparency of information, the financial and market structure, banking regulations and supervision, the legal system, and the accounting standards among others. Country risks are monitored and controlled using country limits set by the Bank; these limits are in accordance with overall business strategy, capital adequacy and provisions for potential risks, risk rating of each country, acceptable level of risk, and business opportunities in each country.

30.3.7 Strategic risk

Strategic risk refers to the risk of current or prospective impact on the Bank's earnings, capital, reputation or standing arising from changes in the environment the bank operates in and from adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic or technological changes. It is a function of compatibility of Bank's strategic goals, strategies developed to achieve those goals, resources deployed to meet those goals and the quality of implementation.

The Bank uses several factors to identify and assess impact of strategic risk on its books including level of integration of risk management policies and practices in the strategic planning process, aggressiveness of strategic goals and compatibility with developed business strategies, capital support for the strategic initiatives to take care of earnings volatility, effectiveness of communication and consistency of application of strategic goals, objectives, corporate culture, and behaviour throughout the FGB Group, effectiveness of MIS to support strategic direction and initiatives among others.

Strategic risks are monitored and controlled as part of the strategic planning process wherein the Bank reviews the progress on strategic initiatives vis-à-vis the plan and considers whether the progress is in line with the plan and the external business environment. The strategic plan is periodically reviewed and updated subject to an approval process which is also a part of the strategic planning process.

30 RISK MANAGEMENT continued

30.3 Overview of Enterprise Risk Management Process continued

30.3.8 Compliance risk

Compliance Risk refers to the risk to earnings or capital or reputation or continued business existence arising from violations of or non-conformance with laws, rules, regulations, prescribed practices, or ethical standards.

The Bank, on a continuous basis, identifies and assesses such risks inherent in all new and existing "material" products, activities, processes and systems. The assessment includes risks assessment on non-conformance with laws, rules, regulations, prescribed practices, or ethical standards. The Enterprise Risk Management function has a group wide compliance unit that develops internal controls to manage such risks and it is supported by the Internal Audit and Legal functions.

In order to monitor compliance and anti-money laundering risks, the Bank has set in place the due diligence processes, reviews of policies and procedures across the Bank, implementation of an integrated compliance and AML system which manages name clearance, transaction monitoring and payment monitoring activities, assessment through compliance check-lists etc.

Compliance risk is largely mitigated by way of focused policies and procedures, extensive checklist based and on-spot due diligence and regular training sessions.

30.3.9 Reputation risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This can be due to external or internal events.

The Bank identifies and assesses reputation risk by clearly defining types of risks to be captured, establishing key sources of reputation risk it may be exposed to based on individual circumstances, describing the risks identified in terms of the nature of risk and the potential consequences that the risks may bring to its reputation. The Bank also refers to other relevant information for risk identification purposes. Such information maybe sourced from media reports, stakeholder analysis reports, internal audit and compliance reports, management exception reports, or other early warning indicators.

For reputation risks, apart from the regular monitoring of external and internal events that can result in possible reputation risks the Bank also has processes to track risks that may affect its reputation. These processes allow the BOD and senior management to take prompt corrective actions to address any anticipated reputation event in advance.

In order to manage reputation risks, the Bank has set in place a mechanism that entails drawing up action plans to identify reputation risk events and facilitate subsequent monitoring of the progress made; for those risks that may be very difficult or too costly to eliminate entirely the mechanism requires development of contingency plans as response actions.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

While the Bank prepares its consolidated financial statements under the historical cost convention modified for measurement to fair value of investment securities (other than held to maturity investments and certain unquoted investments), investment properties and derivative financial instruments, in the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities, other than the Government deposit referred to in note 11, that are not carried at fair value in the consolidated financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits and performing loans and advances, frequently re-priced. For impaired loans and advances, expected cash flows, including anticipated realisation of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the cash flows.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The carrying value of unquoted investments stated at cost and fair value of held to maturity investments are disclosed in note 5. The fair value of the Government deposit cannot be reliably estimated as this is dependent on the amounts and timing of future loan disbursement under the housing loans scheme. Details of the Government deposit are disclosed in note 11.

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

	Level 1 2013 AED 000	*Level 2 2013 AED 000*	*Level 3 2013 AED 000*	*Total 2013 AED 000*
FINANCIAL ASSETS				
INVESTMENTS				
Carried at fair value through income statement				
Investments in managed funds	-	184,520	-	184,520
Investments in equities- Quoted	112,369	-	-	112,369
- Unquoted	-	-	20,198	20,198
Debt securities	7,165	-	-	7,165
Available for sale investments				
Investments in equities – Quoted	26,184	-	-	26,184
–Unquoted	-	2,256	76,892	79,148
Investments in private equity funds	-	-	1,372,356	1,372,356
Debt securities - Quoted	7,296,614	-	-	7,296,614
- Unquoted	-	347,197	-	347,197
Structured debt notes - Unquoted	-	550,950	-	550,950
	7,442,332	1,084,923	1,469,446	9,996,701
DERIVATIVES – Positive fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	174,461	-	174,461
Interest rate swaps, caps and collars	-	248,953	-	248,953
Swaptions	-	2,810	-	2,810
Options	-	39,028	-	39,028
Futures	1,410	-	-	1,410
Derivatives held as fair value hedge				
Interest rate swaps	-	34,896	-	34,896
Cross currency swaps	-	126,660	-	126,660
	1,410	626,808	-	628,218
DERIVATIVES – Negative fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	211,312	-	211,312
Interest rate swaps, caps and collars	-	308,981	-	308,981
Swaptions	-	2,810	-	2,810
Options	-	38,831	-	38,831
Futures	793	-	-	793
Commodity linked swaps	-	16,120	-	16,120
Derivatives held as fair value hedge				
Interest rate swaps	-	28,384	-	28,384
Cross currency swaps	-	101,594	-	101,594
	793	708,032	-	708,825

31 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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

	Level 1 2012 AED 000	*Level 2 2012 AED 000*	*Level 3 2012 AED 000*	*Total 2012 AED 000*
FINANCIAL ASSETS				
INVESTMENTS				
Carried at fair value through income statement				
Investments in managed funds	-	168,258	-	168,258
Investments in equities- Quoted	148,064	-	1,056	149,120
- Unquoted	-	-	19,178	19,178
Debt securities	159,765	-	-	159,765
Available for sale investments				
Investments in equities – Quoted	28,599	-	-	28,599
–Unquoted	-	2,247	68,385	70,632
Investments in private equity funds	-	-	1,398,028	1,398,028
Debt securities - Quoted	4,008,194	-	-	4,008,194
- Unquoted	-	13,053	-	13,053
Structured debt notes - Unquoted	-	1,193,725	-	1,193,725
	4,344,622	1,377,283	1,486,647	7,208,552
DERIVATIVES – Positive fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	65,472	-	65,472
Interest rate swaps, caps and collars	48	453,440		453,488
Swaptions	-	12,421	-	12,421
Credit default swaps	-	102	-	102
Options	-	10,578	-	10,578
Futures	1,322	-	-	1,322
Derivatives held as fair value hedge				
Interest rate swaps	-	3,920	-	3,920
Cross currency swaps	-	130,960	-	130,960
	1,370	676,893	-	678,263
DERIVATIVES – Negative fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	61,078	-	61,078
Interest rate swaps, caps and collars	73	553,209	-	553,282
Swaptions	-	12,421	-	12,421
Options	-	11,875	-	11,875
Commodity linked swaps	-	31,605	-	31,605
Derivatives held as fair value hedge				
Interest rate swaps	-	131,670	-	131,670
Cross currency swaps	-	50,078	-	50,078
	73	851,936	-	852,009

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

31 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Investments carried at fair value through income statement
Investments carried at fair value through income statement are listed equities in local as well as international exchanges, and hedged funds. Equity valuations are based on market prices as quoted in the exchange while funds are valued on the basis on Net Asset Value (NAV) statements received from fund managers

Available for sale investments
AFS investments, revaluation gain / loss of which is recognized through equity, comprises long term strategic investments in companies, private equity funds and Eurodollar or AED denominated debt securities. For companies and funds, the consolidated financial statements provide the valuations of these investments which are arrived primarily by discounted cash flow analysis. For debt securities, the applied valuation is quoted prices by key market players.

Derivatives
Derivatives are mainly interest rate and currency swaps, asset swaps, options on equities, swaptions and FX forward contracts. The valuation techniques used are models which use observable market data like FX forward rates, interest rate curves of different currencies, the deduced zero curves and forward rates and volatilities of the underlying factors

Transfers between categories

During the reporting periods ending 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets recorded at fair value:

	2013	*2012*
	AED 000	*AED 000*
At 1 January	**1,486,647**	94,352
Transfers into level 3	-	1,398,027
Total loss recorded in income statement	**(34,026)**	-
Total gain (loss) recorded in equity	**81,307**	(682)
Additions	**100,555**	-
Disposals	**(165,037)**	(5,050)
At 31 December	**1,469,446**	1,486,647

32 BUSINESS COMBINATIONS

Acquisition of Aseel Finance PJSC
During the year ended 31 December 2013, the Bank acquired an additional stake of 60% in Aseel Finance PJSC ("Aseel") for a consideration of AED 367 million. The Bank obtained control over Aseel on 31 July 2013 ("Acquisition date"). Aseel is a company based in UAE specializing in providing Islamic finance.

The Bank has performed a preliminary purchase price allocation exercise, and determined that the carrying values of Aseel's identifiable assets and liabilities approximate their fair values at the Acquisition date. No significant intangible assets have been identified at the Acquisition date.

32 BUSINESS COMBINATIONS continued

Acquisition of Aseel Finance PJSC continued
Assets acquired and liabilities assumed
The fair values of the identifiable assets and liabilities of Aseel as at the Acquisition date were:

	Fair value recognized on acquisition date AED 000
Assets	
Cash and balances with Central Banks	**868**
Loans and advances	**1,341,450**
Investments properties	**97,986**
Other assets	**35,158**
Property and equipment	**2,790**
	1,478,252
Liabilities	
Due to banks	**(270,400)**
Customers' deposits	**(285,723)**
Other liabilities	**(7,374)**
Provision for staff benefits	**(1,340)**
	(564,837)
Total identifiable net assets at fair value, after capital injection	**913,415**
Less: capital injected before Acquisition date	**(300,000)**
Total identifiable net assets at fair value on Acquisition date	**613,415**
Total identifiable net assets at fair value acquired	**368,049**
Gain on bargain purchase	**(628)**
Purchase consideration transferred	**367,421**

Analysis of cash flows on Acquisition date:

	AED 000
Purchase consideration transferred	**(367,421)**
Net cash acquired with Aseel	**868**
Net cash outflow on acquisition (included in cash flows from investing activities)	**(366,553)**

From the date of acquisition, Aseel has contributed AED 45,116 thousand of interest income and income from Islamic financing and AED 35,624 thousand to the profit before tax of the Bank. If the combination had taken place at the beginning of the period, interest income and income from Islamic financing would have been AED 7,924,183 thousand and the profit before tax for the Bank would have been AED 4,792,498 thousand.

Prior to the Acquisition date, the Bank transferred AED 300 million to Aseel to further increase its share capital. The amount has been excluded from the calculation of the total identifiable net assets on Acquisition date as it was not a component of net assets when determining the consideration for the net assets of Aseel.

32 BUSINESS COMBINATIONS continued

Acquisition of Dubai First Finance PJSC:
During the period ended 31 December 2013, the Bank acquired 100% of Dubai First PJSC ("Dubai First") for a consideration of AED 601 million. The Bank obtained control over Dubai First on 6 November 2013 ("Acquisition date"). Dubai First is a company based in UAE specializing in providing credit card finance.

The Bank has performed a preliminary purchase price allocation exercise, and determined that the carrying values of Dubai First's identifiable assets and liabilities approximate their fair values at the Acquisition date. Goodwill of AED 238,869 thousand has been identified at the Acquisition date and recorded within other assets (note 8).

Assets acquired and liabilities assumed
The fair values of the identifiable assets and liabilities of Dubai First as at the Acquisition date were:

	Fair value recognized on acquisition date AED 000
Assets	
Cash and balances with Central Banks	**51,611**
Loans and advances	**712,874**
Other assets	**13,100**
Property and equipment	**3,770**
	781,355
Liabilities	
Due to banks	**(76,000)**
Customers' deposits	**(298,214)**
Other liabilities	**(45,010)**
	(419,224)
Total identifiable net assets at fair value on Acquisition date	**362,131**
Goodwill arising on acquisition	**238,869**
Purchase consideration transferred	**601,000**

Analysis of cash flows on Acquisition date:

	AED 000
Purchase consideration transferred	**(601,000)**
Net cash acquired with Dubai First	**51,611**
Net cash outflow on acquisition (included in cash flows from investing activities)	**(549,389)**

From the date of acquisition, Dubai First has contributed AED 30,879 thousand of interest income and AED 710 thousand to the profit before tax of the Bank. If the combination had taken place at the beginning of the period, interest income and income from Islamic financing would have been AED 8,010,787 thousand and the profit before tax for the Bank would have been AED 4,810,491 thousand.