

Invest bank P.S.C.

Consolidated financial statements
31 December 2013

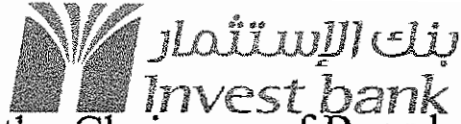
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Invest bank P.S.C.

Consolidated financial statements
31 December 2013

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Report of the Chairman of Board of Directors To the 38th General Assembly Meeting

Dear shareholders,

It gives me great pleasure to welcome you to this annual General Assembly meeting of your bank in order to provide you with the thirty eighth annual report including the P&L statement during the year 2013.

The year 2013 was an exceptional year in the UAE, due to the highly optimistic economy in the state. This has inspired the bring back of the construction fever, busy airports , ports, exhibition centers and the flow of investments , which calls to mind the previous stages before the eruption caused by the global financial crisis ...

The UAE economy, in the year 2013, surpassed the expected global economic growth, achieving a 4% increase, which is twice the expected global economy; which has strengthened the UAE economy to face any sort of crisis in the globally. As a result, the year 2013 has ended remarkably, where Dubai was awarded to host Expo 2020, one of the most prestigious events and driver for the state's economic developments in the next seven years...

The local and global Economic Departments expects the state's GDP to exceed USD410 Billion by YE2014 compared to USD395 Billion in YE2013. The UAE is believed to be the main contributor to this growth in the Middle East; as its economy represents more than a quarter out of the total GDP of the GCC countries, which amounted to USD1.48 Trillion.

It's certain that the United Arab Emirates had become a regional hub for trade, services, tourism and hospitality; in addition to ongoing projects related to the real estate sector, infrastructure and retail. This reinforces its position as an exclusive global business center with sustainable base for business and investment; besides, entering the global standards through its sound financial and economic position.

The banking sector in the UAE is identified as one of the most fundamental pillars in supporting the UAE economic growth

As always promised, your bank's situation remains strong due to your Board of Director's desire to promote ethical trust and credibility as the Bank's essential assets, and strengthen its policies on solid grounds....

Your Bank's profitability improved during the year 2013 with satisfactory growth. Thus, gross operating Income reached AED 608 Million, and net operating profit (before provisions) reached AED 480.8 Million, net interest income was AED 439.8 Million while the non-interest income was AED 168 Million.

Total loans and advances increased by 8% to reach AED 8.8 Billion, while total deposits increased by 6% to reach AED 9 Billion. Total assets and total liabilities amounted to AED 12.3 Billion and AED 9 Billion, respectively.



The Bank's Net profits improved to AED 328 Million, and total shareholders' equity reached AED 2.6 Billion.

The Bank's capital adequacy for the year 2013 reached a ratio of 22.75%, which is well over the central bank's requirement of 12%

During the year end 2013, the bank opened its fifth Branch in Sharjah, Industrial Area 6; hence, the number of branches operating in the state has come to **fifteen branches**.

The bank is looking forward to opening a new branch in Khorfakkan, and another branch in Deira, Dubai. In addition, the Bank's headquarters which is being built in Nad Area – Sharjah, is expected to be ready by the second quarter of 2014.

As part of our expansion plans, we are pleased to announce the opening of the first branch of your bank outside the UAE, in Beirut – Lebanon. InvestBank thus became the first UAE bank to open a Branch in Lebanon.

The branch commenced full operations on January 02nd, 2014.

Bank pays special interests for the localization of the employment, and strives to develop and strengthen the UAE national employees in the banking sector to qualify them in achieving higher managerial positions.

The Board of Directors recommended a distribution of 10% cash dividend and 10% dividend shares to the shareholders totaling to 20% dividend to the shareholders.

In conclusion, I thank you all for your presence. On your behalf and on the behalf of the Board of Directors, Chairman and members of the Invest Bank, I wish to convey our deepest thanks and gratitude to his Highness, Sheikh Dr. Sultan Bin Mohammed Al Qassimi, Member of the Supreme Council Ruler of Sharjah, for HH keen interest and ongoing support to your Bank.

On your behalf and on the behalf of the board of directors, I would like to thank the Bank's management and staff members for their continuous determined efforts at the service of your Bank.

Chairman of the Board





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Independent Auditors' Report

The Shareholders
Invest bank P.S.C

Report on the consolidated financial statements

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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



Independent Auditors' Report (continued)

Report on Other Legal and Regulatory Requirements

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

KPMG Lower Gulf Limited

Vijendra Nath Malhotra

Registration No. 48B

21 JAN 2014

Invest bank P.S.C.
Consolidated statement of financial position
at 31 December

	Note	2013 AED'000	2012 AED'000
Assets			
Cash and deposits with the UAE Central Bank	9	947,341	434,506
Loans and advances to banks	10	984,800	1,400,656
Customers' indebtedness for acceptances	27	304,878	361,589
Loans and advances to customers	4(b)	8,764,281	8,141,354
Investment securities	11	892,382	830,768
Property and equipment	12	94,786	65,683
Other assets	13	310,877	175,016
Total assets		12,299,345	11,409,572
Liabilities			
Deposits from other banks	14	229,900	24,322
Deposits from customers	15	9,007,849	8,519,376
Liabilities under acceptances	27	304,878	361,589
Other liabilities	16	160,278	157,572
Total liabilities		9,702,905	9,062,859
Equity			
Share capital	17	1,312,500	1,250,000
Legal reserve	17	362,288	329,480
Special reserve	17	362,288	329,480
Fair value reserve	11	35,714	(76,229)
Retained earnings		523,650	513,982
Total equity		2,596,440	2,346,713
Total liabilities and equity		12,299,345	11,409,572

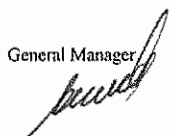
The notes on pages 10 to 50 are an integral part of these consolidated financial statements.

21 JAN 2014

These consolidated financial statements were approved and authorised for issue by the Board of Directors on

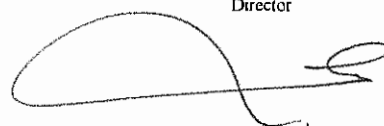
and signed on its behalf by:

General Manager



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

Director



Invest bank P.S.C.
Consolidated income statement
for the year ended 31 December

	<i>Note</i>	2013 AED'000	2012 AED'000
Interest income	<i>18</i>	645,200	632,733
Interest expense	<i>18</i>	(205,350)	(208,069)
Net interest income	<i>18</i>	439,850	424,664
Net fees and commission income	<i>19</i>	117,091	112,514
		556,941	537,178
Net trading income from foreign currencies		16,923	17,962
Net gains from investment securities	<i>11</i>	25,528	499
Other operating income	<i>20</i>	8,588	10,170
Total operating income		607,980	565,809
Operating expenses			
General and administrative expenses	<i>21</i>	(127,178)	(115,475)
Specific impairment provision on loans and advances, net	<i>4(b)</i>	(116,819)	(94,216)
Portfolio impairment provision	<i>4(b)</i>	(27,940)	(23,499)
Other expenses	<i>22</i>	(7,968)	(7,905)
Total operating expenses		(279,905)	(241,095)
Profit for the year		328,075	324,714
Earnings per share (UAE Dirhams)	<i>23</i>	0.250	0.247

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

Invest bank P.S.C.

Consolidated statement of comprehensive income
for the year ended 31 December

	2013 AED'000	2012 AED'000
Profit for the year	328,075	324,714
Other comprehensive income:		
Items that will never be reclassified to profit or loss :		
Change in fair value of financial assets measured at fair value through other comprehensive income	110,087	15,950
Total items that will never be reclassified to profit or loss	110,087	15,950
Items that are or may be reclassified to profit or loss :		
Amortisation of fair value movements on reclassified investments	115	180
Total items that are or may be reclassified to profit or loss	115	180
Total other comprehensive income	110,202	16,130
Total comprehensive income for the year	438,277	340,844

The notes on pages 10 to 50 are an integral part of these consolidated financial statements.

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

Invest bank P.S.C.
Consolidated statement of changes in equity
for the year ended 31 December

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Retained earnings AED'000	Fair Value reserves AED'000	Total AED'000
At 1 January 2012	1,155,000	297,009	297,009	465,293	(91,892)	2,122,419
Total comprehensive income for the year						
Profit for the year	-	-	-	324,714	-	324,714
<i>Other comprehensive income</i>						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	-	15,950	15,950
Amortisation of fair value movements on reclassified investments	-	-	-	-	180	180
Gain on sale of financial assets measured at fair value through other comprehensive income	-	-	-	467	(467)	-
Total other comprehensive income	-	-	-	467	15,663	16,130
Total comprehensive income for the year	-	-	-	325,181	15,663	340,844
Directors remuneration	-	-	-	(1,050)	-	(1,050)
Issue of bonus share	95,000	-	-	(95,000)	-	-
Cash dividend paid	-	-	-	(115,500)	-	(115,500)
Transfers to reserve	-	32,471	32,471	(64,942)	-	-
At 31 December 2012	1,250,000	329,480	329,480	513,982	(76,229)	2,346,713
At 1 January 2013	1,250,000	329,480	329,480	513,982	(76,229)	2,346,713
Total comprehensive income for the year						
Profit for the year	-	-	-	328,075	-	328,075
<i>Other comprehensive income</i>						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	-	110,087	110,087
Amortisation of fair value movements on reclassified investments	-	-	-	-	115	115
Loss on sale of financial assets measured at fair value through other comprehensive income	-	-	-	(1,741)	1,741	-
Total other comprehensive income	-	-	-	(1,741)	111,943	110,202
Total comprehensive income for the year	-	-	-	326,334	111,943	438,277
Directors remuneration	-	-	-	(1,050)	-	(1,050)
Issue of bonus share	62,500	-	-	(62,500)	-	-
Cash dividend paid	-	-	-	(187,500)	-	(187,500)
Transfers to reserve	-	32,808	32,808	(65,616)	-	-
At 31 December 2013	1,312,500	362,288	362,288	523,650	35,714	2,596,440

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

Invest bank P.S.C.
Consolidated cash flow statement
for the year ended 31 December

	<i>Note</i>	2013 AED'000	2012 AED'000
Cash flows from operating activities			
Profit for the year		328,075	324,714
<i>Adjustments for:</i>			
Depreciation		5,964	6,022
Amortisation of premium on bonds		13,085	3,799
Net (gains)/losses from investment securities		(25,528)	(499)
Net (gains)/losses from revaluation of investment property		(860)	(2,640)
Net impairment losses and portfolio impairment provisions		144,759	117,715
Dividend Income		(7,151)	(5,653)
		<u>458,344</u>	<u>443,458</u>
Changes in time deposits with other banks maturing after three months		145,913	(155,095)
Change in time deposits from banks maturing after three months		200,000	-
Change in loans and advances to customers		(767,686)	(410,490)
Change in other assets		(31,111)	(51,876)
Change in deposits from customers		488,473	979,900
Change in other liabilities		2,706	8,192
Directors' remuneration paid		(1,050)	(1,050)
<i>Net cash generated from operating activities</i>		<u>495,589</u>	<u>813,039</u>
Cash flows from investing activities			
Purchase of property and equipment		(35,067)	(23,696)
Purchase of investment securities		(610,591)	(316,337)
Proceeds from sale of investment securities		567,732	24,247
Dividend received		7,151	5,653
<i>Net cash used in investing activities</i>		<u>(70,775)</u>	<u>(310,133)</u>
Cash flows from financing activity			
Cash dividend paid		(187,500)	(115,500)
<i>Net cash used in financing activity</i>		<u>(187,500)</u>	<u>(115,500)</u>
Net increase in cash and cash equivalents		237,314	387,406
Cash and cash equivalents at 1 January		1,661,254	1,273,848
Cash and cash equivalents at 31 December	24	<u>1,898,568</u>	<u>1,661,254</u>

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Invest bank P.S.C.

Notes

(forming part of the consolidated financial statements)

1 Legal status and activities

Invest bank P.S.C. ('Invest bank' or "the Bank") is a public shareholding company with limited liability incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered office of the Bank is at Al Borj avenue, P.O.Box 1885, Sharjah, United Arab Emirates ("UAE").

Invest Bank is licensed by Central Bank of UAE to carry out banking activities and is principally engaged in the business of corporate and retail banking through its network of branches located in the Emirate of Sharjah, Dubai, Abu Dhabi, Al Ain, Ras Al Khaimah and Fujairah. Invest Bank is also licensed by Central Bank of Lebanon to carry out banking activities in Lebanon. The bank has recently opened a branch in Lebanon. The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

The Bank has a fully owned subsidiary, ALFA Financial Services FZE which was established in July 2010 with limited liability status in the Sharjah Airport International Free Zone to provide support services to the Bank.

The consolidated financial statements for the year ended 31 December 2013 comprise the Bank and its subsidiary (together referred to as "the Group").

2 Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and comply with the guidelines of the UAE Central Bank.

b) Changes in accounting policy

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

- a) IFRS 10 *Consolidated Financial Statements* (2011).
- b) IFRS 13 *Fair Value Measurement*.
- c) *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*.
- d) IFRS 12 *Disclosure of Interests in Other Entities*.
- e) *Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*.
- f) IAS 19 *Employee Benefits* (2011).
- g) *Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36)* (2013).
- h) *Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)*.

The nature and effects of changes are explained below.

a) IFRS 10 *Consolidated Financial Statements* (2011).

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

The change did not have a material impact on the Group's financial statements.

b) IFRS 13 *Fair Value Measurement*.

In accordance with the transitional provision of IFRS 13, the Group has applied the new definition of fair value as set out in note 3h, prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

c) *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*

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

The adoption of the new and amended standards and interpretations other than those explained above, did not have an impact on the financial position of the Group during the year.

2 Basis of preparation (continued)

c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following which are stated at fair value:

- Investment properties;
- Derivative financial instruments;
- Financial instruments at fair value through profit or loss; and
- Financial instruments at fair value through other comprehensive income.

d) Functional and presentation currency

These consolidated financial statements have been presented using UAE Dirham ("AED"), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand.

e) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 7.

3 Summary of significant accounting policies

Except for changes explained in note 2b, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

a) Basis of consolidation

Subsidiary

A subsidiary is an investee controlled by the Group. The Group controls an investee if it is exposed to, 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. The financial statements of a subsidiary are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but to the extent that there is no evidence of impairment.

b) Interest income and expense

Interest income and interest expense are recognised in consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs, fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated income statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expenses; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from investments.

Fair value changes on the other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at Fair Value Through Profit and Loss (FVTPL) are presented in net trading income from foreign currencies and net gains from investment securities in the consolidated income statement.

3 Summary of significant accounting policies

c) Fees and commission income and expense

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

Other fees and commission income are generally recognised on an accrual basis when the related services are performed by the Group. When a loan commitment is not expected to result in the draw-down of a loan, commitment fees are recognised on a straight line basis over the commitment period. Other fees and commission expenses are expensed as the related services are received.

d) Dividend income

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

e) Financial assets

Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Classification

At inception a financial asset is classified as measured at amortised cost or fair value.

A financial asset qualifies for amortised cost measurement only if it meets both of the following two conditions :

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

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflect the best way the business is managed and information is provided to the management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest revenue;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Group has designated certain financial assets at fair value through profit or loss because designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

3 Summary of significant accounting policies (continued)

e) Financial assets (continued)

Classification (continued)

Financial assets at FVTOCI

At initial recognition the Group makes an irrevocable election (on an instrument-by-instrument basis) to designate investments in certain equity instruments at FVTOCI (fair value through other comprehensive income). Designation to FVTOCI is not permitted if the equity instrument is held for trading.

Dividend from such equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividends is established, unless the dividends clearly represents a recovery of part of the cost of the investment.

Gains and losses on such equity instruments are never reclassified to consolidated income statement and no impairment is recognised in profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

Impairment of financial assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost are impaired. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Group considers evidence of impairment at both a specific and collective level.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Specific level

At each reporting date, the Bank assesses on a case-by-case basis whether there is any objective evidence that an asset is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss is measured as follows :

- a) If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- b) If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Collective level

Impairment is determined on a collective basis for two different scenarios:

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified.
- for homogeneous groups of loans that are not considered individually significant.

In assessing collective impairment the Group uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3 Summary of significant accounting policies (continued)

e) Financial assets (continued)

Impairment of financial assets carried at amortised cost (continued)

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for loan impairment in the consolidated income statement.

Impairment losses are recognised in the consolidated income statement and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated income statement.

De-recognition of financial assets

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of the ownership are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control on the financial asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Group is recognised as separate asset or liability in the consolidated statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the consolidated income statement.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the financial assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfer of assets with retention of all or substantially all risks and rewards include securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the services.

f) Financial liabilities and equity instruments issued by the bank

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated at FVTPL.

Other financial liabilities

Other financial liabilities including Group borrowings and customers' deposits are initially measured at fair value, net of transaction costs.

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

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3 Summary of significant accounting policies (continued)

f) Financial liabilities and equity instruments issued by the bank (continued)

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognised in the consolidated income statement. All changes in fair value are recognised as part of net trading income in the consolidated income statement.

Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss in either of the following circumstances :

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

g) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

h) Fair value measurement principles

Policy applicable from 1 January 2013

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

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

3 Summary of significant accounting policies (continued)

h) Fair value measurement principles (continued)

Policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arms length basis.

When a market for a financial instrument is not active, the Group establishes fair value using valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other observable current market data.

Assets and long positions are measured at bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

i) Derivative financial instruments- Other non trading derivatives

Derivatives held for internal risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the consolidated statement of financial position and all changes in their fair value are recognised immediately in the consolidated income statement. The Group enters into derivative financial instruments primarily to meet its customer requirements.

j) Foreign currency

(i) Foreign currency transactions

The accounting records of the Group are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirhams at the spot foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in UAE Dirhams at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non monetary assets and liabilities that are measured at fair value in a foreign currency are translated to UAE Dirhams at the spot exchange rate at the date on which the fair value is determined. Non monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in consolidated statement of income.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into UAE Dirhams at spot exchange rate at the reporting date. The income and expenses of foreign operations are translated to UAE Dirhams at spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to non- controlling interest ("NCI").

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in OCI, and accumulated in the translation reserve within equity.

3 Summary of significant accounting policies (continued)**k) Property and equipment****(i) Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. On going repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight line method over their useful lives, and is generally recognised in consolidated income statement. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

	Years
Buildings	20
Office installations and improvements	10
Office furniture and equipment	2 to 5
Motor vehicles	3
IT equipment (including software)	5

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. No depreciation is charged on freehold land and capital-work-in-progress. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated income statement.

l) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Group holds some investment property acquired through the enforcement of security over loans and advances. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the consolidated income statement. The Group determines fair value on the basis of valuation provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

m) Staff terminal benefits

The Group provides for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed based on a projected unit credit method.

The Group contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Group's contributions are charged to the statement of income in the period to which they relate. In respect of this scheme, the Group has a legal and constructive obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

n) Provisions

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

o) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3 Summary of significant accounting policies (continued)

p) Earnings per share

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

q) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash in hand, balances with the Central Bank of the UAE, amounts due from other banks and deposits from other banks that are held for the purpose of meeting short term cash commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

r) Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and the Group does not intend to sell immediately in the near future.

Loans and advances are initially measured at fair value plus incremental direct transaction costs. Subsequent to the initial recognition loans and advances are measured at amortised cost using the effective interest method, except when the Group recognises the loans and advances at fair value through profit or loss.

When the Group is a lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as finance lease and a receivable equal to the net investment in lease is recognised and presented within loans and advances.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

s) Investment securities

Investment securities are initially measured at fair value plus in case of investment securities not at fair value through profit or loss, incremental direct transaction cost. Subsequent to initial recognition investment securities are accounted for depending upon their classification as either amortised cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortised cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flow and the contractual terms of financial assets give rise, on specific dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity instruments held for strategic purpose in other comprehensive income. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

Gains and losses on such equity instruments are never reclassified to consolidated income statement and no impairment is recognised in the consolidated income statement.

t) Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Bank's shareholders.

u) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

v) Operating leases

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

3 Summary of significant accounting policies (continued)

w) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of a non-financial asset is the greater of its value in use and its fair value less cost to sell. The reduction in value is recognised in the consolidated income statement.

An impairment loss is reversed only to the extent that assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

x) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the Executive Committee of the Group to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

y) Directors remuneration

In accordance with the Ministry of Economy and Commerce Interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), directors' remuneration of the Group has been treated as an appropriation from equity and presented under statement of changes in equity.

z) New Standards and Interpretations not yet adopted

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

IFRS 9 (2013)	Financial instruments	(effective date to be finalised)
IAS 32 (Amendment)	Financial instrument-Presentation	(effective 1 January 2014)
IFRIC 21	Levies	(effective 1 January 2014)

IFRS 9

The Group has adopted IFRS 9 (2009) which sets out guidelines for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for general hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in consolidated income statement. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirement also establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39. The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, early application of IFRS 9 is permitted.

The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalization of the amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a limited pervasive impact on the Group's consolidated financial statements.

IAS 32 (Amendment)

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

IFRIC 21

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when - and only when - the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect in the Group's financial statements.

Invest bank P.S.C.

Notes (continued)

4 Financial Risk Management

a) Introduction and overview

The Group has exposure to the following risks from financial instruments and its operations:

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

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

Risk management framework

The Board of Directors (the Board or BOD) has overall responsibility for the establishment and oversight of the Group's risk management framework. The previously established committees viz a Board level executive committee, Asset and Liability Committee (ALCO) and an Audit Committee to establish the base for risk management have been expanded by recognising the need to evolve and to meet the structural changes in the banking industry and paying heed to the regulations. It resulted into formation of a Steering Committee (comprising of senior management), Management Credit Committee and independent Risk Management Department, Anti Money Laundering (AML) & Compliance Department. Considering the pace of change, a Compliance Committee too has been established and the AML & Compliance is operated under the General Manager to ensure AML compliances meet the international standards and Bank's reputation is protected. Committees are streamlined and restructured to mirror the changes in governance to cope with rapid changes in the markets.

Newer concepts and approaches and Basel II Frameworks have been introduced in phases and accordingly policies too are being revised as a constant sustainable activity. Control is maintained by assigning distinct responsibilities to members of the senior management under Risk Management Matrix.

Instead of a 'bolt on' to existing process, Bank continues to re-examine the entire process, inherent risk factors and controls and consider opportunities by rationalizing regulatory risk management initiatives. Experiencing from the crisis, and to deliver value beyond mere adherence, one part of the framework is Internal Capital Adequacy Assessment Process (ICAAP), to assess capital to cover risks not covered under Pillar 1. This ICAAP exercise has demonstrated that the Bank has sufficient capital buffers to cushion any extreme circumstances or scenarios and the Bank has adequate Risk Bearing Capacity at 99.9% confidence level. In response to UAE Central Bank's request, the Bank is also in the process of conducting an extensive Self Assessment exercise which will be consolidated and reported under the following five streams as outlined by the Central Bank. Each of the streams have been segregated and backed by worksheets based on functional responsibilities:

- a. Assets and Value and location of the collateral – covering all advances to Corporates, Retail, Banks, property and other assets);
- b. Funding and Liquidity;
- c. Efficiency of the Management Information System;
- d. Shared and Outsourced services; and
- e. Efficiency of arrangements to receive Payments from the transactions counterparties .

Given the operating environment, Bank's size and the products, resource constraints, Bank has continued to adopt a "vanilla compliance" approach i.e. one that have 'mine for value'. In other words the focus and intensity of efforts are proportionate to the strategic impact and business value. The Bank is also mindful that fragmented and labour intensive compliance activities put a drain on ongoing costs, resources and efficiencies of core business operations. Therefore risk management activities are being managed in a calculated manner, but conforming to regulatory requirements and international best practices desirable under Basel II and Basel III mandates.

Under the purview of the Risk Management Department, Bank is making steady progress in its initiatives to embrace an enterprise risk management (ERM) framework to enable the business and functional units manage all risks in a pro-active manner while integrating concepts of strategic planning, operational risk management, internal controls, and compliances. These include methods and processes, encompassing all risk dimensions to seize the opportunities related to the achievement of the Bank's objectives.

Credit Risk Management Department (CRMD) has formulated Credit Risk policies in consultation with various departments under CRMD, including collateral management policies, credit assessment, risk grading and reporting, risk rating, compliance with regulatory and statutory requirements and recommending the credit policies for Board approval.

Frameworks for translating policies defining "risk appetite" and "risk tolerance" levels to measurement techniques are being developed linking them to appropriate risk limits, controls, capital planning management (CPM) frameworks. Through CPM Bank's aim is to maximize stakeholder value, strategic planning, risk based pricing, risk adjusted performance measurement in addition to fulfilling regulatory requirements. Reviewing of risk management policies and systems is a regular activity to reflect changes in market conditions, products and services offered by the Bank in order to present a comprehensive view of risk from a strategic and operational perspective and have a process to address risk proactively and promote capturing of opportunities.

4 Financial Risk Management (continued)

b) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, other banks and investment in fixed income securities. For risk management reporting purposes the Bank considers and consolidates elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently under the directives from the Board by a committee, but reported as a component of market risk exposure, with an exception of stress testing scenario which forms part of credit risk.

Management of credit risk

The Board of Directors has delegated some of the responsibilities of the management of credit risk to its Executive Committee (EC), Credit Committee and Management Credit Committee. A separate and centralised credit risk management division ("CRMD") is responsible for oversight of the Bank's credit risk, which constitutes of Credit Processing Unit (CPU), Credit Facility Assessment Authority (CFAA) and Credit Control and Remedial (CCAR) department and includes :

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. The Board has delegated limited approval authorities (discretionary limits) to the credit committees. Changes to discretionary limits are subject to Board approval. Similarly, facilities in excess of discretionary limits are approved by the EC or the Board of Directors.
- *Reviewing and assessing credit risk* in accordance with authorisation structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- *Developing and maintaining the Bank's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus on management of the attendant risks. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigants. In preparation for the implementation of the IRB (internal rating based) approaches and building a strong database, bank has introduced online processing of credit applications and rating of all counterparties. The Bank is in the process of developing a risk sensitive framework with an objective of levying risk premiums.
- *Reviewing compliance* on an ongoing basis with agreed exposure limits relating to counterparties, industries and countries. Regular reports are provided to the management, executive committee and the Board of Directors on the quality of portfolios and appropriate corrective action is initiated when necessary.
- *Limiting concentrations of credit exposure* to counterparties and industries (for loans and advances) by establishing exposure caps and monitoring sectoral exposures. Preferred sectors are identified regularly in line with market dynamics. Accordingly marketing initiatives are directed either to expand or to reduce balance risk / reward trade offs.
- *Settlement limits and usage of a clearing agent* to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/ limit monitoring process.
- *Providing advice, guidance and specialist skills* to business units to promote best practices throughout the Bank in the management of credit risk.
- For Financial Institutions the Bank uses external rating such as Standard and Poor's and Capital Intelligence or other recognised credit rating agencies in order to manage its credit risk exposure. Again in preparation for the introduction of IRB approaches, internal rating frameworks for Banks is being established.
- Regular audit of business units and Group credit processes are undertaken by internal audit.

Invest bank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Exposure to credit risk

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

	Loans and advances		Due from banks		Debt securities	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Carrying amount, net	<u>8,764,281</u>	<u>8,141,354</u>	<u>984,800</u>	<u>1,400,656</u>	<u>743,199</u>	<u>618,923</u>
Individually impaired*						
Substandard	486,014	268,467	-	-	-	-
Doubtful	144,978	144,220	-	-	-	-
Legal and loss	163,850	198,111	-	-	-	-
Gross amount	<u>794,842</u>	<u>610,798</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Interest suspended	(30,876)	(38,813)	-	-	-	-
Specific allowance for impairment	(581,967)	(479,431)	-	-	-	-
Carrying Amount	<u>181,999</u>	<u>92,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Past due but not impaired (overdue by more than 90 days)*	80,057	163,998	-	-	-	-
	<u>80,057</u>	<u>163,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Neither past due nor impaired						
Standard	8,429,178	7,837,455	984,800	1,400,656	743,199	618,923
Accounts with renegotiated terms	174,436	120,796	-	-	-	-
	<u>8,603,614</u>	<u>7,958,251</u>	<u>984,800</u>	<u>1,400,656</u>	<u>743,199</u>	<u>618,923</u>
Total non-impaired portfolio	8,683,671	8,122,249	984,800	1,400,656	743,199	618,923
Collective allowance for impairment	(101,389)	(73,449)	-	-	-	-
Carrying amount	<u>8,582,282</u>	<u>8,048,800</u>	<u>984,800</u>	<u>1,400,656</u>	<u>743,199</u>	<u>618,923</u>
Carrying amount	<u>8,764,281</u>	<u>8,141,354</u>	<u>984,800</u>	<u>1,400,656</u>	<u>743,199</u>	<u>618,923</u>

* The Group has a defined policy for delinquency, monitoring and controlling such delinquent accounts, in line with Central Bank and Basel II guidelines.

The table below sets out the credit quality of debt securities which is based on the rating of the respective bond. The analysis has been based on 'Standard & Poor's' rating agency (or its equivalent) where applicable.

	Government bonds		Corporate bonds		Total	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Rated AA- to AA+	78,995	-	157,861	161,332	236,856	161,332
Rated A- to A+	18,365	-	146,076	215,148	164,441	215,148
Rated BBB+ and below	159,886	55,095	54,774	-	214,660	55,095
Unrated	77,242	187,348	50,000	-	127,242	187,348
	<u>334,488</u>	<u>242,443</u>	<u>408,711</u>	<u>376,480</u>	<u>743,199</u>	<u>618,923</u>

Investment in bonds issued by Dubai Department of Finance, Dubai Government and large local corporate groups are unrated. Management believes that the credit risk on these unrated bonds is minimal.

4 Financial risk management (continued)

b) Credit Risk (continued)

Impaired loans and advances

Impaired loans and advances are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are classified as substandard, doubtful, legal and loss, as appropriate, which is in accordance with the guidelines issued by the UAE Central Bank.

Past due but not impaired loans

These are loans and advances where contractual interest or principal payments are past due but the Group believes that impairment is inappropriate on the basis of a genuine repayment source and/or delays in receiving assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to a deterioration in the borrower's financial position and where the Group has made some concessions such as initial maturity is being extended but there is no loss in terms of interest or principal. Once the loan is restructured it remains in this category for a minimum period of one year during which time repayment should be regular in order to transfer to standard portfolio.

Allowances for impairment

The Group establishes allowance for impairment losses that represents its estimate for incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Write-off policy

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

However, in the event there are future chances for recovery where the Group believes there are merits in keeping the account open, the debit is written down with a nominal balance of AED 10 to keep the account open for tracking purposes.

Collateral and other credit enhancements

The Group holds collateral against loans and advances to customers in the form of cash margins, pledges/ liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Group accepts guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporates and high net worth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are generally updated during annual reviews. Collateral is not generally held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Group's policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

Invest bank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below.

		2013	2012
		AED'000	AED'000
Against neither past due nor impaired			
Cash		2,183,135	2,224,934
Commercial and industrial property		1,895,086	1,732,673
Residential property		11,000	1,517
Equities		92,424	146,925
Other		894,915	962,295
	1	<u>5,076,560</u>	<u>5,068,344</u>
Against past due but not impaired			
Cash		16,365	28,632
Commercial and industrial property		32,912	38,260
Equities		514	-
Other		3,074	3,890
	2	<u>52,865</u>	<u>70,782</u>
Against impaired			
Cash		1,452	5,173
Commercial and industrial property		56,879	7,200
Equities		8,485	1,327
Other		1,951	1,939
	3	<u>68,767</u>	<u>15,639</u>
Total collateral held	1+2+3	<u>5,198,192</u>	<u>5,154,765</u>

Collateral values reflect the maximum exposure or the value of the collateral whichever is lower. Actual pledged values in most cases are higher.

Invest bank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Concentration of Credit Risk

The Group monitors internally concentration of credit risk by sector and geographical location. An analysis of concentrations of credit risk as defined by the Group's internal approved guidelines at the reporting date is shown below (all figures in AED'000):

	Loans and advances		Due from banks		Debt securities	
	2013	2012	2013	2012	2013	2012
Carrying value, net	<u>8,764,281</u>	<u>8,141,354</u>	<u>984,800</u>	<u>1,400,656</u>	<u>743,199</u>	<u>618,923</u>
Concentration by sector:						
Sovereign	1,169,312	1,579,506	-	-	334,488	242,443
Construction	1,859,511	1,427,374	-	-	-	-
Trade	1,186,996	1,182,585	-	-	-	-
Real estate and real estate trading	1,128,970	748,586	-	-	-	70,023
Manufacturing	1,043,372	834,701	-	-	-	-
Services	1,097,258	1,110,958	-	-	-	-
Investments	629,646	629,667	-	-	-	-
Banks and financial institutions	268,052	196,605	984,800	1,400,656	296,629	299,149
Transport and communication	136,295	160,558	-	-	-	-
Retail	87,469	80,155	-	-	104,774	-
Agriculture	-	-	-	-	-	-
Others	871,632	782,352	-	-	7,308	7,308
Gross total	<u>9,478,513</u>	<u>8,733,047</u>	<u>984,800</u>	<u>1,400,656</u>	<u>743,199</u>	<u>618,923</u>
Concentration by location:						
United Arab Emirates	9,438,926	8,730,310	863,107	1,310,812	743,199	618,923
Other G.C.C.	38,198	1,400	13,397	19,852	-	-
Other Arab countries	1,389	1,337	46,149	9,321	-	-
Western Europe	-	-	62,147	60,671	-	-
Australia	-	-	-	-	-	-
Gross total	<u>9,478,513</u>	<u>8,733,047</u>	<u>984,800</u>	<u>1,400,656</u>	<u>743,199</u>	<u>618,923</u>

Invest bank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

In accordance with the disclosure requirement of BASEL II Pillar 3 concentration of credit risk by industry segment and currency are as follows. (All figures in AED'000):

Gross credit exposure by industry segment
(as defined by the Central Bank of the UAE)

Industry Segment	Loans and advances		Debt Securities		Total	
	2013	2012	2013	2012	2013	2012
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining and Quarrying	151,984	141,618	-	-	151,984	141,618
Manufacturing	1,043,372	834,701	-	-	1,043,372	834,701
Electricity and Water	-	360	-	-	-	360
Construction	2,535,846	2,016,786	-	70,023	2,535,846	2,086,809
Trade	1,232,315	1,189,749	-	-	1,232,315	1,189,749
Transport, Storage and Communication	136,295	160,558	-	-	136,295	160,558
Financial Institutions	268,052	196,605	296,629	299,149	564,681	495,754
Services	1,277,713	1,113,938	-	-	1,277,713	1,113,938
Government	1,169,312	1,579,506	334,488	242,443	1,503,800	1,821,949
Retail/ Consumer banking	89,578	80,443	104,774	-	194,352	80,443
All others	1,574,046	1,418,783	7,308	7,308	1,581,354	1,426,091
Total	9,478,513	8,733,047	743,199	618,923	10,221,712	9,351,970

Gross credit exposure by currency

	Loans and advances		Debt Securities		Total	
	2013	2012	2013	2012	2013	2012
Foreign currency	39,587	433,521	655,262	336,374	694,849	769,895
AED	9,438,926	8,299,526	87,937	282,549	9,526,863	8,582,075
Total	9,478,513	8,733,047	743,199	618,923	10,221,712	9,351,970

Invest bank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Impaired loans and advances by industry segment and geographical location at 31 December 2013, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues		Provisions Specific	Adjustments Write - offs	Adjustments Write - backs	Total impaired assets
	90 days and above	Total				
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining and Quarrying	5,134	5,134	4,815	-	-	319
Manufacturing	60,568	60,568	52,286	-	300	8,282
Electricity and Water	-	-	-	-	-	-
Construction	263,164	263,164	253,118	28,202	1,323	10,046
Trade	191,090	191,090	136,276	13,051	1,678	54,814
Transport, Storage and Communication	26,680	26,680	23,910	-	-	2,770
Financial Institutions	91,825	91,825	31,804	-	-	60,021
Services	17,053	17,053	15,990	167	-	1,063
Government	-	-	-	-	-	-
Retail/ Consumer banking	8,493	8,493	7,315	4,323	161	1,178
All others	130,835	130,835	87,329	745	1,144	43,506
Total	794,842	794,842	612,843	46,488	4,606	181,999
Concentration by Geography						
United Arab Emirates	793,453	793,453	611,654	46,488	4,606	181,799
Others	1,389	1,389	1,189	-	-	200
Total	794,842	794,842	612,843	46,488	4,606	181,999

Impaired loans and advances by industry segment and geographical location at 31 December 2012, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues		Provisions Specific	Adjustments Write - offs	Adjustments Write - backs	Total impaired assets
	90 days and above	Total				
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining and Quarrying	5,056	5,056	4,803	-	-	253
Manufacturing	41,937	41,937	37,578	457	778	4,359
Electricity and Water	-	-	-	-	-	-
Construction	248,066	248,066	248,066	-	5,540	-
Trade	94,495	94,495	94,495	193	801	-
Transport, Storage and Communication	27,137	27,137	27,137	-	155	-
Financial Institutions	91,825	91,825	12,804	-	-	79,021
Services	10,808	10,808	10,808	-	-	-
Government	-	-	-	-	-	-
Retail/ Consumer banking	9,859	9,859	9,778	-	4,761	81
All others	81,615	81,615	72,775	471	-	8,840
Total	610,798	610,798	518,244	1,121	12,035	92,554
Concentration by Geography:						
United Arab Emirates	609,461	609,461	517,117	1,121	12,035	92,344
Others	1,337	1,337	1,127	-	-	210
Total	610,798	610,798	518,244	1,121	12,035	92,554

Invest bank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

At reporting date the Group do not have any impaired loans overdues less than 90 days. At 31 December 2013 the collective impairment provision is AED 101.4 million (2012: AED 73.4 million).

Analysis of the Bank's exposure at 31 December 2013 based on BASEL II standardised approach is as follows (all figures in AED 000):

Asset classes	<u>On balance sheet</u>	<u>Off balance sheet</u>	<u>Credit risk mitigation (CRM)</u>			<u>Risk weighted assets</u>
	Gross outstanding	Net exposure after credit conversion factor	Exposure before CRM	CRM	After CRM	
Claims on sovereign	1,588,570	583	1,589,153	-	1,589,153	9,183
Claims on Public Sector Entities (PSEs)	796,665	8,752	805,417	-	805,417	-
Claims on banks	1,320,795	48,473	1,369,268	-	1,369,268	501,213
Claims on securities firm	4,301	-	4,301	-	4,301	4,301
Claims on corporates	7,361,638	3,093,268	10,408,546	2,223,769	8,184,777	8,316,600
Claims included in retail portfolio	43,213	-	43,213	842	42,371	31,778
Claims secured by residential property	2,434	-	2,434	-	2,434	852
Claims secured by commercial real estate	79,925	-	79,925	9,572	70,353	70,353
Past due loans	874,899	19,664	331,701	15,833	315,868	404,386
High risk categories	85,626	-	84,872	-	84,872	127,309
Other assets	553,844	-	551,387	-	551,387	486,555
Total	12,711,910	3,170,740	15,270,217	2,250,016	13,020,201	9,952,530

Analysis of the Bank's exposure at 31 December 2012 based on BASEL II standardised approach is as follows (all figures in AED 000):

Asset classes	<u>On balance sheet</u>	<u>Off balance sheet</u>	<u>Credit risk mitigation (CRM)</u>			<u>Risk weighted assets</u>
	Gross outstanding	Net exposure after credit conversion factor	Exposure before CRM	CRM	After CRM	
Claims on sovereign	1,557,446	160	1,557,606	-	1,557,606	-
Claims on Public Sector Entities (PSEs)	632,223	122	632,345	-	632,345	-
Claims on banks	1,687,840	50,342	1,738,182	-	1,738,182	459,099
Claims on securities firm	-	-	-	-	-	-
Claims on corporates	6,211,645	2,794,716	8,907,988	2,106,615	6,801,373	6,945,328
Claims included in retail portfolio	42,065	1,235	43,300	2,192	41,108	30,831
Claims secured by residential property	1,885	-	1,885	-	1,885	660
Claims secured by commercial real estate	200,457	-	200,457	10,315	190,142	190,142
Past due loans	774,796	19,994	378,289	30,090	348,199	482,458
High risk categories	179,296	-	178,542	-	178,542	267,813
Other assets	356,057	-	353,600	-	353,600	288,916
Total	11,643,710	2,866,569	13,992,194	2,149,212	11,842,982	8,665,247

Invest bank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Summary of exposure and credit risk mitigation at reporting date (all figures in AED 000):

	Exposure		Risk Weighted Assets	
	2013	2012	2013	2012
Gross exposure prior to credit risk mitigation	15,270,217	13,992,194	10,084,358	8,838,077
Less: exposure covered by on balance sheet netting	-	-	-	-
Less: exposure covered by eligible financial collateral	2,025,777	1,898,683	19,708	48,087
Less: exposure covered by guarantees	224,239	250,529	112,120	124,743
Less: exposure covered credit derivatives	-	-	-	-
Net exposure after credit risk mitigation	13,020,201	11,842,982	9,952,530	8,665,247

Analysis of the Bank's exposure at 31 December 2013 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

Asset classes	Gross Credit Exposures				
	Rated	Unrated	Total	Post CRM	Risk weighted assets
Claims on Sovereigns	-	1,588,570	1,588,570	1,588,750	9,183
Claims on PSE	-	796,665	796,665	796,665	-
Claims on securities firms	-	4,301	4,301	4,301	4,301
Claims on Banks	1,184,227	136,568	1,320,795	1,320,795	477,034
Claims on Corporate	-	7,361,638	7,361,638	5,934,611	6,005,276
Regulatory and other retail exposure	-	43,213	43,213	42,371	31,778
Residential retail exposure	-	2,434	2,434	2,434	852
Commercial Real Estate	-	79,925	79,925	70,353	70,353
Other assets	-	553,844	553,844	553,844	486,555
Total	1,184,227	10,567,158	11,751,385	10,314,124	7,085,332

Analysis of the Bank's exposure at 31 December 2012 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

Asset classes	Gross Credit Exposures				
	Rated	Unrated	Total	Post CRM	Risk weighted assets
Claims on Sovereigns	-	1,557,446	1,557,446	1,557,446	-
Claims on PSE	-	632,223	632,223	632,223	-
Claims-securities firms	-	-	-	-	-
Claims on Banks	1,687,840	-	1,687,840	1,687,656	434,320
Claims on Corporate	-	6,211,645	6,211,645	4,973,543	4,923,114
Regulatory and other retail exposure	-	42,065	42,065	40,587	30,440
Residential retail exposure	-	1,885	1,885	1,885	660
Commercial Real Estate	-	200,457	200,457	190,142	190,142
Other assets	-	356,057	356,057	353,600	288,916
Total	1,687,840	9,001,778	10,689,618	9,437,082	5,867,592

The Group continues to carry classified doubtful debts and delinquent accounts in its books even after making allowances for impairment in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement ("IAS 39"). However, interest is accrued on doubtful and legal accounts for litigation purposes only and accordingly interest is not taken to profit. Such accruals increase gross loans and advances receivable. Loans and advances are written off only when all legal and other avenues for recovery or settlement are exhausted.

Invest bank P.S.C.**Notes (continued)****4 Financial risk management (continued)****b) Credit Risk (continued)**

The movement during the year in the impairment provision and interest in suspense was as follows:

	Portfolio basis		Specific basis	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
At 1 January	73,449	49,950	518,244	389,885
Charge for the year	27,940	23,499	131,181	117,826
Recoveries during the year	-	-	(4,606)	(12,035)
Interest not recognised in the consolidated income statement (net)	-	-	14,512	23,689
Amounts written off during the year	-	-	(46,488)	(1,121)
	<u>101,389</u>	<u>73,449</u>	<u>612,843</u>	<u>518,244</u>

During the year, there were recoveries amounting to AED 9.76 million (2012: AED 11.5 million) booked in consolidated income statement on account of balances previously written off.

c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk can be segregated into two broad categories :

1) Funding Liquidity Risk is the risk that the Group will encounter difficulty in funding the increases in assets and meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets, without incurring unacceptable losses.

2) Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

Management of liquidity risk

Liquidity risk management has remained at the helm of risk management and is also receiving the close attention of the Board of Directors.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. All liquidity policies and procedures are subject to review and approval by ALCO.

The key elements of the Group's liquidity strategy are as follows :

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches, behavioral characteristics of the Group's financial assets and liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding; and
- Carrying out stress testing of the Group's liquidity position.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets (i.e., total assets by maturity against total liabilities by maturity) and its loans to deposit ratio.

Details of the Group's net liquid assets are summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayments. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

Invest bank P.S.C.

Notes (continued)

4 Financial risk management (continued)

c) Liquidity Risk (continued)

Maturities of assets and liabilities

	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 year AED'000	Total AED'000
At 31 December 2013				
Assets				
Cash and deposits with the UAE Central Bank	947,341	-	-	947,341
Loans and advances to banks	975,618	9,182	-	984,800
Customers' indebtedness for acceptances	174,650	84,132	46,096	304,878
Loans and advances to customers	2,156,621	3,690,614	2,917,046	8,764,281
Investment securities	199,183	234,288	458,911	892,382
Property and equipment	-	-	94,786	94,786
Other assets	70,056	62,838	177,983	310,877
Total assets	4,523,469	4,081,054	3,694,822	12,299,345
Liabilities and equity				
Deposits from other banks	24,391	205,509	-	229,900
Deposits from customers	4,123,268	4,793,826	90,755	9,007,849
Liabilities under acceptances	174,650	84,132	46,096	304,878
Other liabilities	91,014	54,367	14,897	160,278
Equity	132,350	-	2,464,090	2,596,440
Total liabilities and equity	4,545,673	5,137,834	2,615,838	12,299,345
At 31 December 2012				
Assets				
Cash and deposits with the UAE Central Bank	434,506	-	-	434,506
Loans and advances to banks	1,245,561	155,095	-	1,400,656
Customers' indebtedness for acceptances	307,798	45,251	8,540	361,589
Loans and advances to customers	2,228,217	3,681,163	2,231,974	8,141,354
Investment securities	5,021	450,947	374,800	830,768
Property and equipment	-	-	50,195	50,195
Other assets	10,715	46,509	117,792	175,016
Total assets	4,231,818	4,378,965	2,783,301	11,394,084
Liabilities and equity				
Deposits from other banks	18,813	5,509	-	24,322
Deposits from customers	3,877,827	4,147,018	494,531	8,519,376
Liabilities under acceptances	307,798	45,251	8,540	361,589
Other liabilities	72,052	44,535	40,985	157,572
Equity	188,550	-	2,158,163	2,346,713
Total liabilities and equity	4,465,040	4,242,313	2,702,219	11,409,572

Maturities of assets and liabilities have been determined on the basis of the outstanding period from the reporting date to the contracted or expected maturity dates.

The Bank's advances to deposit ratio are as follows:

At 31 December	2013	2012
Loans and advances to customers	8,764,281	8,141,354
Deposits from customers	9,007,849	8,519,376
Advances to Deposit ratio	97.3%	95.6%

Invest bank P.S.C.**Notes (continued)****4 Financial risk management (continued)****c) Liquidity Risk (continued)****Residual contractual maturity of financial liabilities**

The following table shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flow on these instruments may vary significantly from this analysis, for example demand deposits from customers are expected to maintain a stable or increasing balance and on recognized loan commitments are not expected to be draw down immediately.

2013	Carrying amount AED'000	Gross nominal outflow AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative liabilities					
Deposits from banks	229,900	(229,900)	(24,391)	(205,509)	-
Deposits from customers	9,007,849	(9,186,390)	(4,161,127)	(4,932,074)	(93,189)
Liabilities for acceptances	304,878	(304,878)	(174,650)	(84,132)	(46,096)
Other liabilities	160,278	(160,278)	(91,014)	(54,367)	(14,897)
Total liabilities	9,702,905	(9,881,446)	(4,451,182)	(5,276,082)	(154,182)

2012	Carrying amount AED'000	Gross nominal outflow AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative liabilities					
Deposits from banks	24,322	(24,495)	(18,819)	(5,676)	-
Deposits from customers	8,519,376	(8,761,075)	(3,926,109)	(4,270,367)	(564,599)
Liabilities for acceptances	361,589	(361,589)	(307,798)	(45,251)	(8,540)
Other liabilities	157,572	(157,572)	(72,052)	(44,535)	(40,985)
Total liabilities	9,062,859	(9,304,731)	(4,324,778)	(4,365,829)	(614,124)

There are no derivative liabilities as at 31 December 2013 (2012: nil)

d) Market Risk

Market Risk is the risk that changes in market prices - such as interest rates, equity prices and foreign exchange rates and credit spreads (not relating to change in the obligor's/issuer's credit standing) - will affect the Group's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios mainly include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group has very limited trading portfolio, hence it is not exposed to any significant market risk in respect of trading portfolio.

Invest bank P.S.C.

Notes (continued)

4 Financial risk management (continued)

d) Market Risk (continued)

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

Assets and liabilities repricing profile

	Effective Interest rate %	Less than 3 months	3 months to 1 year	1 to 5 year	Non-interest bearing	Total
		AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and deposits with the UAE Central Bank	-	-	-	-	947,341	947,341
Loans and advances to banks	0.21	893,391	9,182	-	82,227	984,800
Customers' indebtedness for acceptances	-	-	-	-	304,878	304,878
Loans and advances to customers	7.53	2,156,621	3,690,614	2,917,046	-	8,764,281
Investment securities	2.19	50,000	234,288	458,911	149,183	892,382
Property and equipment	-	-	-	-	94,786	94,786
Other assets	-	-	-	-	310,877	310,877
Total assets		3,100,012	3,934,084	3,375,957	1,889,292	12,299,345
Liabilities and equity						
Deposits from banks	2.10	24,391	205,509	-	-	229,900
Liabilities under acceptances	-	-	-	-	304,878	304,878
Deposits from customers	2.39	2,118,144	4,793,826	90,755	2,005,124	9,007,849
Other liabilities	-	-	-	-	160,278	160,278
Equity	-	-	-	-	2,596,440	2,596,440
Total liabilities and equity		2,142,535	4,999,335	90,755	5,066,720	12,299,345
Interest rate sensitivity gap		957,477	(1,065,251)	3,285,202	(3,177,428)	-
Cumulative interest rate sensitivity gap:						
As of 31 December 2013		<u>957,477</u>	<u>(107,774)</u>	<u>3,177,428</u>		
As of 31 December 2012		<u>1,318,709</u>	<u>1,246,563</u>	<u>3,358,806</u>		

4 Financial risk management (continued)**d) Market Risk (continued)**

The assets and liabilities repricing profile has been determined on the basis of the final maturity period or interest repricing periods at the reporting date, whichever is earlier.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Sensitivity analysis - Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and related income. The Group manages the risk principally through monitoring interest rate gaps and matching the re-pricing profile of assets and liabilities. The Group also assesses the impact of defined movement in interest yield curves on its net interest income. The following is the impact of interest rate movement on net interest income and regulatory capital.

Shift in yield curve	2013 AED '000	2012 AED '000
+200 b.p.	63,201	62,509
-200 h.p.	(63,201)	(62,509)

A substantial portion of the Group's assets and liabilities are re-priced within 1-year. Accordingly there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 10,428 million of monthly average interest bearing assets and AED 7,268 million of monthly average interest bearing liabilities (31 Dec 2012: AED 10,382 million average interest bearing assets and AED 7,257 million average interest bearing liabilities.) The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

Equity price risk

Equity price risk arises from investments in fair value through profit or loss and FVTOCI equity securities. The management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the management. The Group manages this risk through diversification of investments in terms of industry distribution.

The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy, certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

Sensitivity analysis - equity price risk

Most of the Group's equity investments are listed either on the Dubai Financial Market or the Abu Dhabi Securities Market. For such investments classified as fair value through other comprehensive income, a 5% increase in the two markets at the reporting date would have increased equity by AED 7.46 million (31 December 2012: AED 5.51 million) and an equal change in the opposite direction would have decreased equity by a similar amount. For investments classified as fair value through profit or loss, the impact on the profit would have been an increase or decrease of zero (31 December 2012: AED 0.25 million). There were no investments classified as fair value through profit or loss as at 31 December 2013.

Foreign currency risk

Invest bank engages in limited trading in foreign exchange on its own account. Its treasury activity is mainly directed to assisting its customers in managing their foreign exchange exposures. A system of exposure limits is in place to control price risk on foreign exchange exposures and a system of individual credit limits is in place to control counter-party risk. The amount mentioned in the table below reflects the equal but opposite potential effect on profit and equity based on a 1% negative or positive currency fluctuation, with all other variables held constant.

Invest bank P.S.C.**Notes (continued)****4 Financial risk management (continued)****d) Market Risk (continued)****Foreign currency risk (continued)**

At the reporting date, the Group has the following net open currency exposures in respect of un-pegged currencies:

	2013 - AED '000			2012 - AED '000		
	Total	Impact on profit	Impact on equity	Total	Impact on profit	Impact on equity
British Pound	145	1	-	608	6	-
Euro	2,153	22	-	1,362	14	-
Lebanese Pound	37,098	371	-	90,350	-	904

e) Operational Risk

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

Operatioonal risks emanate from every segment of Group's operation and are faced by all the business units.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Group has taken measures to put in place tools, firstly to identify all such operational risks. The Group has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Group's reputation.

For this purpose, the Group has hired a consulting firm that specialises in providing expertise in managing all risks, contracted to put in place a dedicated software which is currently under testing. Implementation of Standardised approach will be carried out in phases, following data collection of the identified Key Risk Indicators (KRI's), Key Performance Indicators (KPI's) and Risk Control and Self Assessment (RCSA).

In order to ensure a structured and focused Operational risk management ("ORM") process, the Group has also formed an ORM committee whose mandate is to oversee ORM process, consider each operational risk in order of "Priority by significance", to develop policies, processes and procedures for managing operational risk in all of the Group's material products, activities, processes and systems as well as recommend best way to integrate the ORM in the overall organisation wide risk management process. ORM should develop overall Group standards for the management of operational risk in the following areas:

- i) requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- ii) requirements for the reconciliation and monitoring of transactions;
- iii) compliance with regulatory and other legal requirements;
- iv) documentation of controls and procedures;
- v) requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- vi) requirements for the repnrting of operational losses and proposed remedial action;
- vii) development of contingency plans;
- viii) training and professional development;
- ix) ethical and business standards; and
- x) risk mitigation, including insurance where this is cost effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are shared with Audit Committee and senior management of the Group.

In addition to the reviews by internal audit, the compliance with policies and procedures is strengthened by reviews of compliance and operational risk manager.

4 Financial risk management (continued)

f) Capital risk management and Basel II requirements

Capital allocation

The Bank's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Group's objective when managing capital are as follows.

- Safeguarding the Group's ability to continue as a going concern and increase return for shareholders; and
- Comply with regulatory capital set by Central Bank of UAE.

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

The Bank also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the banking book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Bank is in the process of introducing the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis to reflect the risk substituting framework for the loan assets. RAROC calculations are being built into the implemented Credit Appraisal System.

The Bank's regulatory capital adequacy ratio is set by the Central bank of UAE ('the Central Bank'). The Bank has determined its regulatory capital as recommended by the New Basel II Capital Accord, in line with the guidelines of the UAE Central Bank with effect from 2007. The Bank has adopted a standardised approach for credit risk and market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB by 2014 and 2018 respectively. The Bank has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the year. The Central Bank has advised that the minimum capital adequacy ratio should be 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8%.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on investments classified as FVTOCI and derivatives held as cash flow hedges, general provision and subordinated term loans. The following limits have been applied for Tier 2 capital:
 - Total tier 2 capital shall not exceed 67% of tier 1 capital;
 - Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
 - General provision shall not exceed 1.25% of total risk weighted assets.

4 Financial risk management (continued)

f) Capital risk management and Basel II requirements (continued)

The Bank's regulatory capital position at 31 December was as follows:

	2013 AED '000	2012 AED '000
TIER 1 CAPITAL		
Share capital	1,312,500	1,250,000
Legal reserves	362,288	329,480
Special reserves	362,288	329,480
Retained earnings	261,191	254,210
Total tier 1 capital	2,298,267	2,163,170
TIER 2 CAPITAL		
Fair value reserve	35,714	(76,229)
General provisions/general loan loss reserves	101,389	73,449
Subordinated debt	-	323,044
Total tier 2 capital	137,103	320,264
Total regulatory capital (Sum of tier 1 and 2 capital)	2,435,370	2,483,434
RISK WEIGHTED ASSETS		
Credit risk	9,952,530	8,665,247
Market risk	46,358	94,664
Operational risk	707,800	656,579
Total risk weighted assets (RWA)	10,706,688	9,416,490
Total regulatory capital expressed as % of RWA	22.75%	26.37%
Total tier 1 capital expressed as % of RWA	21.47%	22.97%

Tier-2 Capital at 31 December 2012 as shown above includes subordinated debt from 'The Ministry of Finance of the U.A.E. amounting to AED 323 million, which has been repaid in June 2013.

Total capital requirement for market risk under standardised approach as per BASEL II Pillar 3 is as follows:

	2013 - AED '000		2012 - AED '000	
	Capital required	Risk weighted assets	Capital required	Risk weighted assets
Interest rate risk	-	-	-	-
Equity position risk	-	-	803	6,692
Foreign exchange risk	5,565	46,358	10,561	87,972
Commodity risk	-	-	-	-
Total capital requirement	5,565	46,358	11,364	94,664

5 Accounting classification of financial assets and financial liabilities

The table below shows a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

At 31 December 2013	FVTPL AED '000	FVTOCI AED '000	Others at amortised cost AED '000	Total carrying amount
Financial assets				
Cash and deposits	-	-	947,341	947,341
Loans and advances to banks	-	-	984,800	984,800
Loans and advances to customers	-	-	8,764,281	8,764,281
Investment securities	-	149,183	743,199	892,382
Interest receivable	-	-	55,356	55,356
	-	<u>149,183</u>	<u>11,494,977</u>	<u>11,644,160</u>
Financial liabilities				
Deposits from customers	-	-	9,007,849	9,007,849
Deposits from other banks	-	-	229,900	229,900
Interest payable	-	-	77,665	77,665
	-	-	<u>9,315,414</u>	<u>9,315,414</u>

At 31 December 2012

At 31 December 2012	FVTPL	FVTOCI	Others at amortised cost	Total carrying amount
Financial assets				
Cash and deposits	-	-	434,506	434,506
Loans and advances to banks	-	-	1,400,656	1,400,656
Loans and advances to customers	-	-	8,141,354	8,141,354
Investment securities	5,021	206,824	618,923	830,768
Interest receivable	-	-	49,050	49,050
	<u>5,021</u>	<u>206,824</u>	<u>10,644,489</u>	<u>10,856,334</u>
Financial liabilities				
Deposits from customers	-	-	8,519,376	8,519,376
Deposits from other banks	-	-	24,322	24,322
Interest payable	-	-	78,972	78,972
	-	-	<u>8,622,670</u>	<u>8,622,670</u>

6 Fair value of financial instrument

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

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

a) Fair value hierarchy of assets/liabilities measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

At 31 December 2013

<u>Financial assets</u>	Level 1	Level 2	Level 3	Total
FVTPL - Quoted equities	-	-	-	-
FVTOCI - financial assets	137,797	11,386	-	149,183
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
<u>Non financial assets</u>				
Investment property	-	29,050	-	29,050
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
	<u>137,797</u>	<u>40,436</u>	<u>-</u>	<u>178,233</u>

At 31 December 2012

<u>Financial assets</u>	Level 1	Level 2	Level 3	Total
FVTPL - Quoted equities	5,021	-	-	5,021
FVTOCI - financial assets	108,015	98,809	-	206,824
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
<u>Non financial assets</u>				
Investment property	-	28,190	-	28,190
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
	<u>113,036</u>	<u>126,999</u>	<u>-</u>	<u>240,035</u>

Invest bank P.S.C.

Notes (continued)

6 Fair value of financial instrument (continued)

b) Financial instruments not measured at fair value

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

At 31 December 2013	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial assets					
Cash and deposits with the UAE Central Bank	-	947,341	-	947,341	947,341
Loans and advances to banks	-	984,800	-	984,800	984,800
Loans and advances to customers	-	8,764,281	-	8,764,281	8,764,281
Investment securities	675,027	75,749	-	750,776	743,199
Interest receivable	-	55,356	-	55,356	55,356
	<u>675,027</u>	<u>10,827,527</u>	<u>-</u>	<u>11,502,554</u>	<u>11,494,977</u>
Financial liabilities					
Deposits from customers	-	9,007,849	-	9,007,849	9,007,849
Deposits from other banks	-	229,900	-	229,900	229,900
Interest payable	-	77,665	-	77,665	77,665
	<u>-</u>	<u>9,315,414</u>	<u>-</u>	<u>9,315,414</u>	<u>9,315,414</u>

- a) In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to its fair value.
- b) In respect of investments in sukuk/honds, management has used the quoted price when available to assess fair value or used a Discounted Cash Flow (DCF) methodology based on market observable inputs.
- c) Long term loans and advances to customers are fair valued based on DCF which takes into account original underlying cash borrower credit grading and expected prepayments. These features are used to estimate expected cash flows and discounted at risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.
- d) fair values of deposits from banks and customers is estimated using DCF methodology, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

7 Use of estimates and judgements

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies are as follows.

(a) Impairment losses on financial instruments carried at amortised cost

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently approved by credit risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolio of loans and advances and investment securities measured at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items can not yet be identified. In assessing the need for collective loss allowances, management considers factor such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimate of the future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(b) Fair value of derivatives and unquoted securities

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values, these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however area such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

8 Segmental analysis

The Group operates in one geographic area, the United Arab Emirates, and its results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

	Dec-13			Dec-12		
	Commercial Banking	Treasury and Investments	Total	Commercial Banking	Treasury and Investments	Total
Year ended	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest and other income	535,459	72,521	607,980	507,717	58,092	565,809
Net impairment losses	(141,743)	(3,016)	(144,759)	(116,107)	(1,608)	(117,715)
Profit for the year	262,074	66,001	328,075	271,587	53,127	324,714
Segment capital expenditure	35,067	-	35,067	23,696	-	23,696
Segment depreciation	5,964	-	5,964	6,022	-	6,022
At 31 December						
Segment total assets	9,417,344	2,882,001	12,299,345	8,752,742	2,656,830	11,409,572
Segment total liabilities	9,479,331	223,574	9,702,905	9,047,456	15,403	9,062,859

Invest bank P.S.C.

Notes (continued)

9 Cash and deposits with the UAE Central Bank

	2013	2012
	AED'000	AED'000
Cash in hand	64,808	64,270
Deposits in current account with the UAE Central Bank (CB)	590,428	80,835
Statutory reserve deposits with CB	292,105	289,401
	<u>947,341</u>	<u>434,506</u>

Statutory reserve deposits are required to be maintained as per regulations of the UAE Central Bank. These deposits are not available for the Group's day-to-day operations and are non-interest bearing.

10 Loans and advances to banks

	2013	2012
	AED'000	AED'000
Money market placements	847,548	1,284,790
Items in course of collection (including export bills discounted)	128,070	115,866
Others (note 10.1)	9,182	-
	<u>984,800</u>	<u>1,400,656</u>

The geographical concentration is as follows :

Within the U.A.E	863,107	1,310,812
Outside the U.A.E	121,693	89,844
	<u>984,800</u>	<u>1,400,656</u>

10.1 The Bank is required to maintain AED 9.2 million (25% of the capital of the Lebanon Branch of AED 36.7 million) with Banque Du Liban (Central Bank of Lebanon) which is not available for the day to day activities of the Lebanon Branch.

11 Investment securities

The details of investments are as follows :

At 31 December 2013

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

Investments in listed equities

- - - -

Financial assets measured at fair value through other comprehensive income

Investments in listed equities

136,886 911 - 137,797

Investments in un-listed equities

11,386 - - 11,386

Financial assets at amortised cost:

Investments in sukuks/bonds/commercial papers

743,199 - - 743,199

891,471 911 - 892,382

Invest bank P.S.C.

Notes (continued)

11 Investment securities (continued)

	Domestic AED '000	Other GCC Countries AED '000	Others AED '000	Total AED '000
At 31 December 2012				
Financial assets at fair value through profit or loss (FVTPL):				
Investments in listed equities	5,021	-	-	5,021
Financial assets measured at fair value through other comprehensive income				
Investments in listed equities	110,275	1,117	-	111,392
Investments in un-listed equities	5,083	-	90,349	95,432
Financial assets at amortised cost:				
Investments in sukuk/bonds	618,923	-	-	618,923
	<u>739,302</u>	<u>1,117</u>	<u>90,349</u>	<u>830,768</u>

FVTOCI equities as at 31 December 2012 included an unquoted equity investments held as strategic investment in First National Bank, Lebanon ("FNB") of AED 90.3 million, which represented 15.5972% interest in FNB. During 2013, this investment has been sold to an external party for a total consideration of AED 137.8 million, out of which an amount of AED 33.9 million has been received and the remaining balance of AED 103.9 is receivable and booked in other assets.

Fair value reserve

At 31 December 2013, the positive fair value reserve of AED 35.7 million (2012: negative fair value reserve of AED 76.2 million) includes net fair value gain of AED 111.8 million (2012: net fair value gain of AED 15.5 million) on FVTOCI equity securities which are recognised in other comprehensive income.

Net gains/(losses) from investment securities

Net gains/(losses) from investment securities have the following components for the year ended 31 December:

	2013 AED'000	2012 AED'000
Realised gains / losses on sale of investment securities	26,961	724
Fair value adjustment for financial assets at fair value through profit or loss	<u>(1,433)</u>	<u>(225)</u>
	<u>25,528</u>	<u>499</u>

Invest bank P.S.C.
Notes (continued)

12 Property and Equipment

	Land and building AED'000	Office installation and improvements AED'000	Office furniture and equipment AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 1 January 2013	48,215	26,343	43,990	425	18,527	137,500
Additions	-	362	3,910	-	30,795	35,067
Disposals/ transfer	-	-	-	-	-	-
At 31 December 2013	48,215	26,705	47,900	425	49,322	172,567
Accumulated depreciation						
At 1 January 2013	22,552	13,367	35,614	284	-	71,817
Charge for the year	5	2,228	3,590	141	-	5,964
Disposals/ transfer	-	-	-	-	-	-
At 31 December 2013	22,557	15,595	39,204	425	-	77,781
Net book value at 31 December 2013	25,658	11,110	8,696	-	49,322	94,786
Cost						
At 1 January 2012	48,215	19,496	40,560	425	-	108,696
Additions	-	6,847	3,430	-	18,527	28,804
Disposals/ transfer	-	-	-	-	-	-
At 31 December 2012	48,215	26,343	43,990	425	18,527	137,500
Accumulated depreciation						
At 1 January 2012	22,548	11,299	31,806	142	-	65,795
Charge for the year	4	2,068	3,808	142	-	6,022
Disposals/ transfer	-	-	-	-	-	-
At 31 December 2012	22,552	13,367	35,614	284	-	71,817
Net book value at 31 December 2012	25,663	12,976	8,376	141	18,527	65,683

Invest bank P.S.C.

Notes (continued)

13 Other assets

	2013	2012
	AED'000	AED'000
Interest receivable	55,356	49,050
Investment properties	29,050	28,190
Prepayments and other assets	<u>226,471</u>	<u>97,776</u>
	<u>310,877</u>	<u>175,016</u>

In the past, the Group had acquired two properties in settlement of debt. These properties are classified as investment properties. The management adopted a fair value model and revalued these properties to their estimated fair value based on a professional valuation performed by an independent real estate valuers. The change in fair value was recorded in other operating income.

14 Deposits from other banks

	2013	2012
	AED'000	AED'000
Placements with the Banks	205,509	5,509
Items in course of settlement	9,963	12,207
Demand deposits	<u>14,428</u>	<u>6,606</u>
	<u>229,900</u>	<u>24,322</u>

15 Deposits from customers

	2013	2012
	AED'000	AED'000
Time deposits	6,868,816	6,665,271
Savings accounts	133,909	112,500
Current and other accounts	<u>2,005,124</u>	<u>1,741,605</u>
	<u>9,007,849</u>	<u>8,519,376</u>

Customer deposits by geographical area are as follows:

	2013	2012
	AED'000	AED'000
Within the UAE	8,995,432	8,483,227
Others	<u>12,417</u>	<u>36,149</u>
	<u>9,007,849</u>	<u>8,519,376</u>

As at 31 December 2012, time deposits included deposits of AED 323 million received from the Ministry of Finance, United Arab Emirates. On 25 March 2009, the Shareholders resolved to convert these deposits into subordinated debt authorising the Board of Director to undertake necessary action to execute the agreement with the Ministry of Finance. On 30 December 2009, the Board of Directors resolved approving the term of the agreement for conversion of the above deposits and the signed agreement dated 31 December 2009 (re-categorization date) was submitted by the Group to the Ministry of Finance. As per the terms of the agreement, these deposits can be treated as subordinated to equity as lower Tier 2 capital in accordance with the conditions as set out in the agreement. The subordinated debt carries interest at 4% for the first two years, 4.5% and 5% for third and fourth years respectively and 5.25% thereafter, until the maturity of loan in December 2016. These subordinated debts were repaid by the Bank during 2013, prior to its maturity.

Invest bank P.S.C.

Notes (continued)

16 Other liabilities

	2013	2012
	AED'000	AED'000
Interest payable	77,665	78,972
Unearned commission income	22,942	27,572
Staff benefits payable	14,897	13,721
Accrued expenses	10,271	10,438
Managers' cheques	9,584	5,334
Others	24,919	21,535
	<u>160,278</u>	<u>157,572</u>

17 Capital and Reserves

At 31 December 2013, the Group's authorised, issued and fully paid share capital was AED 1,312.5 million comprising 1,312.5 million shares of AED 1 each (at 31 December 2012: AED 1,250 million comprising 1,250 million shares of AED 1 each).

Proposed dividend

The Board of Directors has proposed a cash dividend of AED 131.3 million for 2013 (2012 : AED 187.5 million) being 10% of the paid up share capital (2012 : 15%) and a bonus share dividend of AED 131.3 million (2012 : AED 62.5 million) being 10% of paid up share capital (2012 : 5%).

Reserves

In accordance with Article 82 of Federal Law No.10 of 1980, a transfer of 10% of profit, if any, is made annually to the legal reserve until this reserve equals to 50% of the share capital.

In accordance with the Bank's Articles of Association, as a minimum 10% of profit is transferred annually to a special reserve which will be used for purposes to be determined by the ordinary general meeting upon a proposal being made by the Board of Directors.

18 Net interest income

	2013	2012
	AED'000	AED'000
<i>Interest income :</i>		
Loans and advances to banks	4,960	5,600
Certificates of deposits	-	63
Loans and advances to customers	620,305	611,251
Bonds/Sukuk/Commercial Papers	19,935	15,819
	<u>645,200</u>	<u>632,733</u>
<i>Interest expenses :</i>		
Deposits from other banks	(257)	(277)
Time deposits	(200,136)	(202,176)
Call deposits	(2,610)	(4,062)
Savings accounts and others	(2,347)	(1,554)
	<u>(205,350)</u>	<u>(208,069)</u>
	<u>439,850</u>	<u>424,664</u>

Invest bank P.S.C.

Notes (continued)

19 Net fees and commission income

	2013	2012
	AED'000	AED'000
<i>Fees and commission income :</i>		
Letters of credit fee	21,537	23,581
Letters of guarantee fee	59,486	56,032
Retail and corporate lending fees	12,460	11,609
Minimum balance fees	107	107
Commission on transfers	4,441	4,449
Others	19,429	17,078
	<u>117,460</u>	<u>112,856</u>
<i>Fees and commission expenses :</i>		
Service charges	(361)	(329)
Others	(8)	(13)
	<u>(369)</u>	<u>(342)</u>
	<u>117,091</u>	<u>112,514</u>

20 Other operating income

	2013	2012
	AED'000	AED'000
Fair value gain/(loss) on investment property	860	2,640
Dividends on investment securities	7,151	5,653
Other income	-	1,300
Rental income	577	577
	<u>8,588</u>	<u>10,170</u>

21 General and administrative expenses

	2013	2012
	AED'000	AED'000
Payroll and related costs	94,971	88,839
Occupancy	13,582	10,738
Others	18,625	15,898
	<u>127,178</u>	<u>115,475</u>

22 Other expenses

	2013	2012
	AED'000	AED'000
Depreciation	5,964	6,022
Provision for staff terminal benefits	2,004	1,883
	<u>7,968</u>	<u>7,905</u>

Invest bank P.S.C.**Notes (continued)****23 Earnings per share**

Basic earnings per share is based on the profit attributable to ordinary shareholders of the Bank and weighted average number of ordinary shares.

	2013	2012
Profit for the year AED ('000)	328,075	324,714
Weighted average number of shares outstanding at 31 December ('000)	1,312,500	1,312,500
Basic earnings per share AED	<u>0.250</u>	<u>0.247</u>

At reporting date the Group does not have any instrument resulting in dilution of basic earnings per share. Earnings per share as at 31 December 2012 is adjusted for 62.5 million bonus shares issued during the year.

24 Cash and cash equivalents

	2013	2012
	AED'000	AED'000
Cash and deposits with the UAE Central Bank	947,341	434,506
Due from other banks maturing within three months	975,618	1,245,561
Deposits from other banks maturing within three months	(24,391)	(18,813)
	<u>1,898,568</u>	<u>1,661,254</u>

Cash and deposits with the UAE Central Bank include AED 292.1 million (2012: AED 289.4 million) comprising mandatory reserves with the U.A.E. Central Bank which are not available for use in the Group's day to day operations.

25 Related party transactions

In the normal course of business, the Group enters into various transactions with related parties including key management personnel and their related companies. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties, which in opinion of the management are not significantly different from those that could have been obtained from third parties. The volume of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	Key management personnel 2013 AED'000	Companies associated with key management personnel 2013 AED'000	Key management personnel 2012 AED'000	Companies associated with key management personnel 2012 AED'000
Loans				
Loans outstanding at 1 January	59,520	368,008	77,836	353,016
Loans issued during the year	24,468	78,205	28,375	66,792
Loan repayments during the year	(41,145)	(30,388)	(46,691)	(51,800)
Loans outstanding at 31 December	<u>42,843</u>	<u>415,825</u>	<u>59,520</u>	<u>368,008</u>
Interest income earned during the year	<u>4,284</u>	<u>29,108</u>	<u>5,952</u>	<u>23,654</u>
Outstanding letters of credit and guarantees at 31 December	<u>4,728</u>	<u>23,635</u>	<u>4,498</u>	<u>32,036</u>

No provisions have been recognised in respect of loans granted to related parties (2012: Nil).

The loans extended to directors during the year are repayable over 1 year and bear interest at rates ranging from 4 % to 10 % per annum (2012: 6% to 11%). At 31 December 2013, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 378.8 million (2012: AED 335.7 million).

Invest bank P.S.C.

Notes (continued)

25 Related party transactions (continued)

	Key management personnel 2013 AED'000	Companies associated with key management personnel 2013 AED'000	Key management personnel 2012 AED'000	Companies associated with key management personnel 2012 AED'000
Deposits				
Deposits at 1 January	303,074	958,072	242,593	804,197
Deposits received during the year	108,957	107,119	128,957	200,129
Deposits repaid during the year	(86,971)	(149,376)	(68,476)	(46,254)
Deposits at 31 December	<u>325,060</u>	<u>915,815</u>	<u>303,074</u>	<u>958,072</u>
Interest expense during the year	<u>6,501</u>	<u>18,316</u>	<u>5,746</u>	<u>20,400</u>
	2013 AED'000	2012 AED'000		
Key management compensation				
Salaries and other short term benefits	10,667	11,180		
Termination benefits	247	275		
	<u>10,914</u>	<u>11,455</u>		

Proposed directors' remuneration

Subsequent to the reporting date, the Board of Directors proposed their remuneration in the amount of AED 1.05 million (2012: AED 1.05 million).

26 Commitments and contingent liabilities

At any time Bank has outstanding commitment to extend credit. These commitment take the form of approved loan facilities. Outstanding loan commitment have committed periods that do not extend beyond the normal underwriting and settlement period.

The Bank provides financial guarantees and letter of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend up to period of one year.

The Bank has capital commitments towards the construction of the new Head office building amounting to AED 25 million (2012 : AED 25 million).

The contractual amount of commitments and contingent liabilities are set out in the following table by category.

	2013 AED'000	2012 AED'000
Letters of credit	361,290	384,801
Letters of guarantee	5,035,771	4,439,862
Commitment to extend credit	1,961,846	1,579,520
Foreign exchange and forward commitments	12,544	-
	<u>7,371,451</u>	<u>6,404,183</u>

Commitment to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considered less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Majority of the Group's off balance sheet exposures falls within standard portfolio.

Exposure by geography as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2013	2012	2013	2012	2013	2012
United Arab Emirates	1,961,846	1,579,520	12,544	-	5,307,004	4,100,964
GCC Excluding UAE	-	-	-	-	2,846	723,699
Other Arab Countries	-	-	-	-	68,295	-
Other	-	-	-	-	18,916	-
	<u>1,961,846</u>	<u>1,579,520</u>	<u>12,544</u>	<u>-</u>	<u>5,397,061</u>	<u>4,824,663</u>

26 Commitments and contingent liabilities (continued)

Exposure by currency as on 31 December

	Commitment to extend credit		Foreign exchange and forward		Other Commitments and contingent liabilities	
	2013	2012	2013	2012	2013	2012
Foreign Currency	-	-	12,544	-	609,348	530,152
AED	1,961,846	1,579,520	(12,544)	-	4,787,713	4,294,511
Total	1,961,846	1,579,520	-	-	5,397,061	4,824,663

Exposure by industry segment as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2013	2012	2013	2012	2013	2012
Agriculture, fishing and related activities	-	-	-	-	9	19
Crude Oil, Gas, Mining and Quarrying	6,848	1,000	-	-	21,537	25,452
Manufacturing	158,665	151,252	-	-	461,310	618,741
Electricity and Water	-	-	-	-	8,165	-
Construction	553,971	313,214	-	-	3,587,938	2,688,121
Trade	222,235	215,411	12,544	-	538,700	947,111
Transport, Storage and Communication	4,620	27,250	-	-	27,458	64,121
Financial Institutions	28,644	40,521	-	-	27,609	28,514
Services	264,536	296,456	-	-	391,995	369,323
Government	200,287	57,122	-	-	19,736	14,252
Retail/ Consumer banking	39,832	40,129	-	-	3,719	3,152
All Others	482,208	437,165	-	-	308,885	65,857
Total	1,961,846	1,579,520	12,544	-	5,397,061	4,824,663

Exposure by maturity as on 31 December

	Commitment to extend credit		Foreign exchange and forward		Other Commitments and contingent liabilities	
	2013	2012	2013	2012	2013	2012
Less than 3 months	843,594	679,194	12,544	-	2,432,579	1,592,138
3 months to one year	1,118,252	900,326	-	-	4,938,872	3,232,525
One to five years	-	-	-	-	-	-
Total	1,961,846	1,579,520	12,544	-	7,371,451	4,824,663

27 Customers indebtedness for acceptances

Customers' indebtedness for acceptances represents the accepted documented liability amount which is recoverable from the respective customers of the Group at the reporting date. Liabilities under acceptances represents bills of exchange, letters of credit etc where the Group has accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis in the consolidated statement of financial position as the Group does not have a legal right of set-off.

28 Comparative figures

Certain comparative figures have been reclassified where necessary to conform to current year's presentation.