Mawarid Finance P.J.S.C.

Consolidated Financial Statements

for the year ended 31 December 2013

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Directors' report

The Board of Directors of Mawarid Finance PJSC and its subsidiaries ("the Group") are pleased to submit the Annual Report and accompanying consolidated statement of financial position along with the consolidated statement of comprehensive income as at 31 December 2013.

Mawarid Group has continued in its emphasized effort in the development and provision of innovative products and competitive Shariah compliant financial services. It has also made various initiatives towards sustaining high-quality performance and maximizing market share to become the provider of first choice Islamic financial solutions in a modern business environment.

Despite adverse market conditions prevailed during the last few years, the group has successfully delivered yet another resilient and recorded performance in 2013, clearly demonstrating the success and viability of its core business model based on prudent risk management, focused marketing and intelligent cost effective practices.

The highlights of its performance during the Year 2013 as compared to the prior year were;

- Total Revenue is up by 91% - from AED 66.10 million to AED 126.25 million.
- Equity holders income of the parent is up by 183% - from AED 20.04 million to AED 56.78 million
- Total Net asset attributable to equity holder of the parent increased by 5% from AED 977.26 million to AED1,026.07 million.
- Wakalah deposit increased by 29% - from AED 151.84 million to 195.66 million.
- Return on average share holders' equity increased from 2.1% to 5.7%.
- The investments made in Subsidiaries and Associates recent past has produced good results and added value to Mawarid's revenue stream during 2013.
- The Group continued to pursue a market responsive, prudent credit philosophy backed by a conservative and cost effective approach simultaneously ensuring compliance of all regulatory requirements.

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The other key highlights of Group's performance:

- During the year Mawarid has invested in a leading Security System & Services provider in UAE (Falcon Eye Technology LLC), through acquiring a stake of 51%, in the company has resulted in substantial growth in the assets, revenue and overall profit.

- Mawarid Exchange continued its expansion by establishing new branch during 2013. In addition to new branch opened at Deira City Center in during 2013, one more branch at Sharjah is getting ready for operations. It has established correspondent relationships with the major banks in Srilanka, India, Phillipine, Pakistan, Nepal and other countries.

- Mawarid Group's companies, Technical Art Concepts LLC (TACME) and Falcon Eye Technology LLC have awarded with few major projects with local and international companies and with the UAE Government organizations.

- The Group has acquired the remaining 45% non-controlling interest of Al Jazeera Financial Services, through one of it's the Group's subsidiaries MFI Investments LLC. Further Al Jazeera Financial Services has obtained the license from securities and commodities authority ("SCA") to carry out Margin trading business.

Mawarid Group is well positioned to successfully navigate through a difficult operating environment and exploit with a prudent approach opportunities arising to enable us to satisfy the aspirations of our stakeholders in balanced and sustainable manner.

We take this opportunity to thank our employees and valued business partners for their significant contribution to the growth of the company. We look forward to expanding the network and are sure to achieve a stronger market presence in the years to come.

On behalf of Board of Directors

Mohamed Al Nuaimi
Director & Chief Executive Officer

31 MAR 2014

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Independent Auditors' Report

The Shareholders
Mawarid Finance P.J.S.C

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Mawarid Finance P.J.S.C ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit or loss, comprehensive income, 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) and the Articles of Association of the Company; that proper financial records have been kept by the Company; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Company'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 Company or its financial position.

Other matter

The consolidated financial statements as at and for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on the consolidated financial statements on 28 March 2013.

KPMG

KPMG Lower Gulf Limited
Muhammad Tariq
Registration No: 793

3 1 MAR 2014

Mawarid Finance P.J.S.C.

Consolidated statement of financial position

as at 31 December 2013

	Note	**31 December 2013 AED '000**	31 December 2012 AED '000
Assets			
Cash and bank balances	10	**320,960**	213,405
Financing and investing assets	12	**366,155**	399,943
Investment properties	14	**93,800**	165,175
Investment in securities	15	**179,703**	130,853
Investment in associates	16	**144,564**	133,847
Goodwill	17	**18,257**	8,630
Property and equipment	18	**77,350**	76,456
Intangible assets	19	**11,657**	10,068
Other assets	20	**75,042**	26,058
TOTAL ASSETS		**1,287,488**	1,164,435
Equity and liabilities			
Equity			
Share capital	21	**1,000,000**	1,000,000
Treasury shares	21	**(6,000)**	(6,000)
Statutory reserve	22	**20,819**	15,481
General reserve	23	**20,819**	14,903
Investment revaluation reserve		**(29,187)**	(24,472)
Retained earnings/Accumulated (losses)		**20,106**	(22,655)
Attributable to equity holders of the Parent		**1,026,557**	977,257
Non-controlling interest	24	**25,793**	11,136
Total equity		**1,052,350**	988,393
Liabilities			
Wakalah deposits	25	**195,662**	151,841
Other liabilities	26	**39,476**	24,201
Total liabilities		**235,138**	176,042
TOTAL EQUITY AND LIABILITIES		**1,287,488**	1,164,435

Omran Al - Owais
Chairman

Mohamed Al Nuaimi
Director & Chief Executive Officer

The notes on pages 9 to 47 are an integral part of these consolidated financial statements.

The independent auditors' report on consolidated financial information is set out on page 2-3.

Mawarid Finance P.J.S.C.

Consolidated statement of profit or loss

for the year ended 31 December 2013

	Note	**31 December 2013 AED '000**	31 December 2012 AED '000
Income from financing and investing assets	27	**27,384**	35,004
Income from Islamic deposits and wakalah placements	28	**2,602**	5,248
Revenue from IT and security system services	29	**59,228**	18,703
Unrelaised gain on revaluation of investment properties	14	**6,098**	-
Realised gain on sale of investment property	14	**11,627**	-
Realised gain on investment carried at FVTPL		**6,241**	3,351
Other income	30	**13,117**	3,802
Total revenue from operating activities		**126,297**	66,108
General and administrative expenses	31	**(57,519)**	(41,625)
Cost of sales relating to IT and security system services	29	**(35,410)**	(8,703)
Total expenses from operating activities		**(92,929)**	(50,328)
Depositors' share of profit		**(813)**	(794)
Provision for impairment	13	**-**	(10,189)
Profit before associate's share of profit for the year		**32,554**	4,797
Share of profit from associates	16	**28,636**	16,023
Profit for the year		**61,190**	20,820
Attributable to:			
Equity holders of the Parent		**56,781**	20,039
Non-controlling interest		**4,409**	781
		61,190	20,820

The notes on pages 9 to 47 are an integral part of these consolidated financial statements.

The independent auditors' report on consolidated financial information is set out on page 2-3.

Mawarid Finance P.J.S.C.

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	31 December 2013	31 December 2012
	AED '000	AED '000
Profit for the year	**61,190**	20,820
Other comprehensive income:		
Items that will never be reclassified to profit or loss	**-**	-
Items that are or may be reclassified to profit or loss:		
Changes in fair value of available for sale investments	**(4,715)**	(4,455)
Total comprehensive income for the year	**56,475**	16,365
Total comprehensive income attributable to:		
Equity holders of the Parent	**52,066**	15,436
Non-controlling interest	**4,409**	929
Total comprehensive income for the year	**56,475**	16,365

The notes on pages 9 to 47 are an integral part of these consolidated financial statements.

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Mawarid Finance P.J.S.C.

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Available to equity holders of the Parent								
	Share capital	Treasury shares	Statutory reserve	General reserve	Investment revaluation reserve	Retained earnings/ (Accumulated losses)	Total	Non-controlling interest	Total
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
Balance at 1 January 2012	1,000,000	(6,000)	13,400	12,822	(19,869)	(38,532)	961,821	1,100	962,921
Profit for the year	-	-	-	-	-	20,039	20,039	781	20,820
Other comprehensive income:									
Changes in fair value of available for sale investments	-	-	-	-	(4,603)	-	(4,603)	148	(4,455)
Total comprehensive income for the year	-	-	-	-	(4,603)	20,039	15,436	929	16,365
Transfer to statutory reserves	-	-	2,081	2,081	-	(4,162)	-	-	-
Non controlling interest arising on acquisition of subsidiary	-	-	-	-	-	-	-	9,107	9,107
Balance at 31 December 2012	1,000,000	(6,000)	15,481	14,903	(24,472)	(22,655)	977,257	11,136	988,393
Balance at 1 January 2013	**1,000,000**	**(6,000)**	**15,481**	**14,903**	**(24,472)**	**(22,655)**	**977,257**	**11,136**	**988,393**
Profit for the year	-	-	-	-	-	**56,781**	**56,781**	**4,409**	**61,190**
Other comprehensive income:									
Changes in fair value of available for sale investments	-	-	-	-	**(4,715)**	-	**(4,715)**	-	**(4,715)**
Total comprehensive income for the year	-	-	-	-	**(4,715)**	**56,781**	**52,066**	**4,409**	**56,475**
Transfer to statutory reserves	-	-	**5,338**	**5,916**	-	**(11,254)**	-	-	-
Non controlling interest arising on acquisition of subsidiary	-	-		-	-	-	-	**10,248**	**10,248**
Movement upon further acquisition of subsidiary	-	-	-	-	-	**(2,766)**	**(2,766)**	-	**(2,766)**
Balance at 31 December 2013	**1,000,000**	**(6,000)**	**20,819**	**20,819**	**(29,187)**	**20,106**	**1,026,557**	**25,793**	**1,052,350**

The notes on pages 9 to 47 are an integral part of these consolidated financial statements.

The independent auditors' report on consolidated financial information is set out on page 2-3 7

Mawarid Finance P.J.S.C.

Consolidated statement of cash flows

for the year ended 31 December 2013

	Note	31 December 2013 AED '000	31 December 2012 AED '000
Cash flows from operating activities			
Profit for the year		**61,190**	20,820
Adjustments for:			
Depreciation of property and equipment		**3,672**	4,136
Amortisation of intangible assets		**3,380**	2,748
Income on Islamic deposits and wakala placements		**(2,602)**	(5,248)
Provision for employees' end of service benefits		**1,347**	1,078
Depositors' share of profit		**813**	794
Profit from investment in associates		**(28,636)**	(16,023)
Provision against Islamic financing and investing assets		**-**	12,620
Gain on investment properties		**(6,098)**	-
Gain on sale of investment property		**(11,627)**	-
Gain on sale of assets		**-**	(91)
		21,440	20,834
Changes in:			
Islamic deposits with banks and other financial institutions		**(141,154)**	119,911
Financing and investing assets		**33,788**	3,417
Other assets		**(14,989)**	2,056
Wakalah deposits		**43,821**	16,803
Other liabilities		**758**	(81,673)
Cash (used in)/from operating activities		**(56,337)**	81,348
Depositors' share of profit paid		**(813)**	(794)
Employees' end of service benefit paid		**(497)**	(141)
Net cash (used in)/from operating activities		**(57,647)**	80,413
Cash flows from investing activities			
Purchase of property and equipment		**(4,566)**	(3,875)
Purchase of investment properties		**-**	(77,473)
Additional investment in associate		**-**	(4,000)
Disposal of property and equipment		**-**	281
Disposal of investment property		**89,100**	-
Movement in investment securities		**(59,807)**	19,146
Purchase of intangible assets		**(1,896)**	-
Income received on Islamic deposits and wakalah placements		**2,602**	5,248
Intangibles from acquisition of subsidiary		**-**	(7,243)
Acquisition of subsidiary		**(19,304)**	(10,123)
Dividend received from associates		**17,919**	12,849
Net cash from/(used in)investing activities		**24,047**	(65,190)
Net (decrease)/increase in cash and cash equivalents		**(33,599)**	15,223
Cash and cash equivalents at the beginning of the year		**170,816**	155,593
Cash and cash equivalents at the end of the year	11	**137,217**	170,816

The notes on pages 9 to 47 are an integral part of these consolidated financial statements.

The independent auditors' report on consolidated financial information is set out on page 2-3.

1 Establishment and operations

Mawarid Finance P.J.S.C. (the "Company") was registered on 4 December 2006 as a Private Joint Stock Company in accordance with the UAE Federal Law No 8 of 1984, as amended. The address of the Company's registered office is P.O. Box 212121, Dubai, United Arab Emirates ("UAE").

The Company is licensed by the Central Bank of the UAE as a finance company and is primarily engaged in Islamic Shari'a compliant financing and investment activities involving products such as Ijara, Forward Ijara, Murabaha, Musharaka and Wakalah. The activities of the Company are conducted in accordance with Islamic Shari'a, which prohibits usury, and the provisions of its Memorandum and Articles of Association.

The consolidated financial statements includes the results of the operations of the Company and its subsidiaries (collectively referred to as "the Group"). Details of the Company's subsidiaries are mentioned in note 24 of these consolidated financial statements.

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) *Basis of measurement*

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

i) available-for-sale investments ("AFS");
ii) financial assets at fair value through profit or loss (FVTPL); and
ii) investment properties

c) *Functional and presentation currency*

These consolidated financial statements have been prepared in United Arab Emirates Dirham (AED) rounded to nearest thousand, which is the Group's functional and presentation currency.

d) *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 5.

3 Islamic shari'a definitions

The following terms are used in the consolidated financial statements with the meaning specified:-

Shari'a

Shari'a is the Islamic law which is essentially derived from the Quran and Sunnah that governs beliefs and conducts of human beings. The Group, incorporates the Shari'a rules and principles in its activities.

Ijarah

An agreement whereby the Company (lessor) purchases or leases an asset according to the customer's request (lessee), based on his promise to lease the asset for a specific period and against certain rental installments. Ijarah could be ended by transferring the ownership of the asset to the lessee.

3 Islamic shari'a definitions *(continued)*

Forward Ijarah

Forward Ijarah is an arrangement whereby the Company agrees to provide, on a specified future date, certain specified property on lease to the customer upon its completion and delivery by the developer, from whom the Company has purchased the property. The lease rent under Forward Ijarah commences only upon the customer having received possession of the property from the Company. The arrangement could be ended by transferring the ownership of the asset to the lessee.

Murabaha

An agreement whereby the Company sells to a customer a commodity which the Company has purchased based on a promise received from the customer to buy the item purchased according to specific terms and conditions.

Mudaraba

Mudaraba is an agreement between the Company (Raab-uI-MaaI) and another party (Mudarib), whereby the Raab-ul-Maal would provide a certain amount of funds, which Mudarib would then invest against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakalah

An agreement whereby the Company (Muwakkil) provides a certain sum of money to an agent (Wakeel), who invests it according to specific conditions in return for a certain fee which can be a lump sum or a percentage of the amount invested. The Wakeel is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Musharaka

Musharaka is an agreement between the Company and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

4 Significant accounting policies

a) The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

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

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

ii) *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.

iii) *IFRS 12 Disclosure of Interests in Other Entities.*

As a result of IFRS 12, the Group has expanded its disclosures about its interest in subsidiaries and equity accounted investees.

4 Significant accounting policies *(continued)*

iv) *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 4h, 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.

v) *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 consolidated statement of profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

b) Basis of consolidation

i) *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree’s employees (acquiree’s awards) and relate to past services, then all or a portion of the amount of the acquirer’s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree’s awards and the extent to which the replacement awards relate to pre-combination service.

ii) *Non-controlling interests*

NCI are measured at their proportionate share of the acquiree’s identifiable net assets at the acquisition date. Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii) *Subsidiaries*

Subsidiaries’ are investees 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 subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

The Group has evaluated the impact of the new definition of control and concludes that it sill retains control over its subsidiaries and therefore results of subsidiaries should be consolidated in the consolidated financial statement.

iv) *Loss of control*

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

4 Significant accounting policies *(continued)*

b) Basis of consolidation *(continued)*

v) *Interest in equity accounted investee*

The Group's interest in equity accounted investee comprise of interest in associates.

Associate is an entity in which the Group has significant influence, but no control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Company has rights to net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of profit or loss and OCI of equity accounted investee, until the date on which significant influence or joint control ceases.

An impairment loss in respect of equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

vi) *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 intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c) Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective profit 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 into the functional currency 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 profit or loss. However, foreign currency differences arising from the translation of non-monetary available for sale equity instruments are recognised in OCI.

d) Revenue recognition

Ijarah

Ijarah income is recognised on a time-apportioned basis over the lease term based on the principal amount outstanding using effective profit rate method.

Murabaha

Murabaha income is recognised on a time-proportion basis over the period of the contract based on the principal amounts outstanding using effective profit rate method.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis using effective profit rate method if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas losses are charged to income on their declaration by the Mudarib.

Musharaka

Income is accounted for on the basis of the reducing balance on a time-apportioned basis using effective profit rate method that reflects the effective yield on the asset.

4 Significant accounting policies *(continued)*

d) Revenue recognition *(continued)*

Income on deposit and wakalah placement
Income earned on deposits and Wakalah placements is recognised on a time proportion basis using effective profit rate method.

Dividend income
Dividends on equity instruments are recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established.

All other income is recognised when the right to receive is established.

Commission income
Commission income is recognised when the related services are rendered.

IT related income
IT related income is recognised when the related services are rendered.

Allocation of profit
Allocation of profit between the depositors and the shareholders is calculated according to the Group's standard procedures and is approved by the Company's Shari'a Supervisory Board.

Investment properties rental income
Rental income from investment properties is recognised as revenue on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

e) 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 expenditure*
Subsequent expenditure is capitalised 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 statement of profit or loss. Land is not depreciated.

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

	Years
Office building	25
Furniture and fixtures	4
Office and IT equipment	3-5
Motor vehicles	5

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of profit or loss.

4 Significant accounting policies *(continued)*

f) Intangible assets and goodwill

i) *Goodwill*

Goodwill arising on acquisition of subsidiaries is measured at cost less accumulated losses.

ii) *Research and development*

Expenditure on research activities is recognised in consolidated statement of profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in consolidated statement of profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

iii) *Intangible assets*

Intangible asset acquired in a business combination is identified and recognised separately from goodwill where it satisfies the definition of an intangible asset and fair value can be measured reliably. The cost of such intangible asset is its fair value at the acquisition date.

Subsequent to initial recognition, intangible asset acquired is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately. The intangible asset is amortised over a period of five to seven years.

g) 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. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the consolidated statement of profit or loss. 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.

h) Non-derivative financial instrument

Financial assets and financial liabilities

i) *Recognition*

The Group initially recognises financing and investing assets, wakalah placements, other receivables and payables on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

ii) *Measurement*

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

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

iii) *Classification*

Financial assets

The Group classifies its financial assets into one of the following categories:-

- Financing and investing assets (also refer note 4j);
- available for sale (also refer note 4k); and
- at fair value through profit or loss, consisting of held for trading or designated at fair value through profit or loss (also refer note 4k).

4 Significant accounting policies *(continued)*

h) Non-derivative financial instrument *(continued)*

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

iv) *Derecognition*

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in consolidated OCI is recognised in consolidated profit or loss. Any profit in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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 transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of 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 if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

4 Significant accounting policies *(continued)*

h) Non-derivative financial instrument *(continued)*

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

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

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

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

vii) *Fair value measurement*
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 recognised in the consolidated statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

4 Significant accounting policies *(continued)*

h) Non-derivative financial instrument *(continued)*

vii) *Fair value measurement (continued)*

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.

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.

viii) *Identification and measurement of impairment*

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

The Group considers evidence of impairment for financing and investing assets at both a specific asset and a collective level. All individually significant financing and investing assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financing and investing assets that are not individually significant are collectively assessed for impairment by grouping together financing and investing assets with similar risk characteristics.

4 Significant accounting policies *(continued)*

h) Non-derivative financial instrument *(continued)*

viii) *Identification and measurement of impairment(continued)*

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, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is 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.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit 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 of 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 before an expected restructuring is measured as follows:-

- If the expected restructuring will not result in derecognition of the existing asset, then 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 profit rate of the existing financial asset.
- If the expected restructuring will result 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 profit rate of the existing financial asset.

Impairment losses are recognised in consolidated statement of profit or loss and reflected in an allowance account against financing and investing assets. Profit on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through consolidated statement of profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to consolidated statement of profit or loss. The cumulative loss that is reclassified from equity to consolidated statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in consolidated statement of profit or loss. Changes in impairment attributable to application of the effective profit method are reflected as a component of profit income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through consolidated statement of profit or loss; otherwise, any increase in fair value is recognised through consolidated statement of OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in consolidated statement of OCI.

The Group writes off a financing and investing asset or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determines that there is no realistic prospect of recovery.

4 Significant accounting policies *(continued)*

i) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprises cash on hand, non-restricted current accounts with the Central Bank of U,A.E. and amounts due from/to other entities on demand or with an original maturity of three months or less.

j) Financing and investing assets

Financing and investing assets consist of Murabaha receivables, Mudaraba, Musharaka, Wakalah arrangements and Ijarah contracts and they are measured at amortised cost less any amounts written off and allowance for impairment losses.

Allowance for impairment is made against financing and investing assets when their recovery is in doubt taking into consideration lAS 39 requirements for fair value measurement. Financing and investing assets are written off only when all possible courses of action to achieve recovery have proved unsuccessful. Losses expected from future events are not recognised. The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determines that there is no realistic prospect of recovery.

i) *Individually assessed financing and investing assets*

Individually assessed financing and investing assets mainly represent corporate and commercial financing and investing assets which are assessed individually in order to determine whether there exists any objective evidence that they are impaired. They are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Group in accordance with the original contractual terms.

ii) *Collectively assessed financing and investing assets*

Impairment losses of collectively assessed financing and investing assets include mainly the allowances on financing and investing assets with common features which are assessed on a portfolio basis.

iii) *Reversal of impairment*

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the impairment allowance account accordingly. The write-back is recognised in the consolidated statement of profit or loss in the period in which it occurs.

k) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available-for-sale.

i) *Fair value through profit or loss ("FVTPL")*

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates them as an investment that is not held for trading and are accordingly classified as available-for-sale investments.

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

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

4 Significant accounting policies *(continued)*

k) Investment securities *(continued)*

ii) *Available for sale*

'Available-for-sale investments' are non-derivative investments that are designated as available for- sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Profit income is recognised in consolidated statement of profit or loss using the effective profit method. Dividend income is recognised in consolidated statement of profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in consolidated statement of profit or loss. Impairment losses are recognised in consolidated statement of profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the financing and investing assets and receivables category if it would otherwise have met the definition of financing and investing assets and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

l) Impairment of non financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in consolidated statement of profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

m) 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.

4 Significant accounting policies *(continued)*

n) Financial guarantees

'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 it is due in accordance with the terms of a debt instrument.

Liabilities arising from financial guarantees are initially measured at fair value and the initial fair value is amortised over the life of the guarantee. 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 are included within other liabilities.

o) Staff terminal benefits

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

The management considers that the difference between the liability as calculated using an actuarial method would not be materially different from the provision carried in the consolidated financial statements.

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 consolidated statement of profit or loss 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.

p) Forfeited income

According to the Shari'a Supervisory Board of the Company, the Group is required to identify any income deemed to be derived from sources not acceptable under Shari'a regulations and to set aside such amount in a separate account used to pay for local social activities.

q) 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 statement of profit or loss on a straight-line basis over the term of the lease.

r) 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.

4 Significant accounting policies *(continued)*

s) 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)

i) *IFRS 9 (2013)*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for 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.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and financing and investing assets. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

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 OCI rather than in profit or loss. 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 requirements also establish a more principles-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, application of IFRS 9 is permitted.

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

4 Significant accounting policies *(continued)*

s) New standards and interpretations not yet adopted *(continued)*

ii) *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.

iii) *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.

5 Key accounting estimates and judgments

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

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

i) *Impairment losses on financing and investing assets*

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

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

5 Key accounting estimates and judgments *(continued)*

ii) *Valuation of financial instrument*

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

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

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

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

iii) *Classification of investments*

Management decides on acquisition of an investment whether it should be classified as carried at FVTPL or AFS investments.

The Group classifies investments as FVTPL if they are acquired primarily for the purpose of making a short term profit by the dealers. Changes in fair values are reported as part of the consolidated statement of profit or loss.

All other investments are classified as AFS investments.

iv) *Useful life of property and equipment*

The costs of items of property and equipment are depreciated on a systematic basis over the estimated useful lives of the assets. Management has determined the estimated useful lives of each asset and/ or category of assets based on the following factors:-

- expected usage of the assets;
- expected physical wear and tear, which depends on operational and environmental factors; and
- legal or similar limits on the use of the assets.

Management considers the depreciation method utilised reflects the pattern in which the assets' future economic benefits are expected to be consumed by the Group. Management has not made estimates of residual values for any items of property and equipment at the end of their useful lives as these have been deemed to be immaterial.

v) *Valuation of investment property*

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

- Valuation approach

  To derive the market value of the investment property the independent valuer has adopted the comparable approach. The comparable approach of valuation involves the collection of data on recent sales transactions and listed prices for similar properties within the vicinity. Further adjustments are applied in terms of the various characteristics of the subject properties versus comparable data collected to derive the market value of the subject properties.

6 Financial risk management

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

i) Credit risk
ii) Liquidity risk
iii) Market risk
iv) Operational risk

Risk management framework

This note presents information about the Group's objectives, policies and processes for measuring and managing risk.

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the Group Asset and Liability Management Committee (ALCO), which is responsible for developing and monitoring Group risk management policies.

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

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee. Internal audit has been outsourced to the third party.

i) *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 financing and investing assets to customers and other banks, and investment in debt securities and funds. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of directors has delegated responsibility for the oversight of credit risk to its Group Credit Committee. A separate Group Credit department, reporting to the Group Credit Committee, is responsible for managing the Group's credit risk, including the following:-

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

- 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. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Group Credit, the Head of Group Credit, the Group Credit Committee 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.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

6 Financial risk management *(continued)*

i) *Credit risk (continued)*

- Developing and maintaining the Group's risk gradings to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. These grades are similar to and in line with the guidelines of the Central Bank of UAE. The responsibility for setting risk grades lies with the final approving credit committee, as appropriate. Risk grades are subject to regular reviews by Group Risk.

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, and impairment losses, if any.

	Due from banks		**Financing, investing and other assets ***		**Investments in sukuks and funds**	
	2013	2012	**2013**	2012	**2013**	2012
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Carrying amount, net	**319,573**	213,301	**437,251**	424,333	**64,160**	11,360
Impaired portfolio						
Substandard	-	-	**7,654**	22,156	-	-
Doubtful	-	-	**1,591**	6,872	-	-
Legal and loss	-	-	**32,673**	19,559	-	-
Total impaired portfolio	-	**-**	**41,919**	48,587	-	-
Non Impaired portfolio						
Past due but not impaired (overdue by more than 90 days)	-	-	**16,111**	8,818	-	-
	-	**-**	**16,111**	8,818	-	-
Neither past due nor impaired	**319,573**	213,301	**334,252**	368,666	**64,160**	**11,360**
Total non-impaired portfolio	319,573	213,301	**350,363**	377,484	64,160	11,360
Gross amount	319,573	213,301	**392,283**	426,071	64,160	11,360
Total provision	-	-	**(26,128)**	(26,128)	-	-
Net carrying amount	**319,573**	213,301	**366,155**	**399,943**	**64,160**	11,360
*** Other assets (excluding prepayment)**	**-**	-	**71,097**	24,390	**-**	-

Impaired financing and investing assets

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

6 Financial risk management *(continued)*

i) *Credit risk (continued)*

Past due but not impaired financing and investing assets

These are financing and investing assets where contractual profit 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.

Financing and investing assets with renegotiated terms

Financing and investing assets with renegotiated terms are financing assets 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 profit 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 financing and investing assets portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on financing assets 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 financing and investing assets/securities (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the financing and investing assets 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.

Collateral

The Group holds collateral against financing and investing assets in the form of pledges/liens over mortgaged financing.

It is the Group's policy to ensure that financing are extended to customers within their capability to service profit 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.

An estimate of the fair value of collateral and other security enhancements held against financing and investing assets to customers is shown below.

	2013	2012
	AED'000	AED'000
Against impaired	**41,308**	32,213
Against past due but not impaired	**29,994**	-
Total collaterals	**71,302**	32,213

6 Financial risk management *(continued)*

i) *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:-

	Due from banks		Financing, investing and other assets		Investments in sukuks and funds	
	2013	2012	**2013**	2012	**2013**	2012
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Carrying amount, net	**319,573**	213,301	**437,251**	424,333	**64,160**	11,360
Concentration by sector:						
Banks and financial institutions	**319,573**	213,301	-	-	**47,395**	11,361
Retail	-	-	**42,711**	51,082	-	-
Others	-	-	**394,540**	373,251	**16,765**	-
Gross total	**319,573**	213,301	**437,251**	424,333	**64,160**	11,361
Concentration by location:						
United Arab Emirates	**319,573**	213,301	**437,251**	424,333	**60,102**	7,457
Western Europe	-	-	-	-	**4,057**	3,904
Gross total	**319,573**	213,301	**437,251**	424,333	**64,159**	11,361

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

	2013	2012
	AED'000	AED'000
At 1 January	26,128	13,508
Charge for the year	-	12,620
Total	**26,128**	26,128

6 Financial risk management *(continued)*

ii) 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.

Management of liquidity risk

The Group's Board of directors sets the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. Treasury department manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position. A summary report, including any exceptions and remedial action taken, is submitted on a regular basis to ALCO.

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 they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows:-

- 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 financial
- Carrying out stress testing of the Group's liquidity position.

Exposure to liquidity risk

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.

	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 year AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2013					
Financial liabilities					
Wakalah deposits	**17,187**	**36,075**	**142,400**	**-**	**195,662**
Other liabilities	**15,221**	**-**	**24,255**	**-**	**39,476**
Total financial liabilities	**32,408**	**36,075**	**166,655**	**-**	**235,138**

6 Financial risk management *(continued)*

ii) **Liquidity Risk *(continued)***

	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 year AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2012					
Financial liabilities					
Wakalah deposits	27,756	33,070	91,015	-	151,841
Other liabilities	2,000	12,184	10,017	-	24,201
Total financial liabilities	29,756	45,254	101,032	-	176,042

The Group follows Shari'a principles and contractual returns are not guaranteed and are on profit or loss sharing basis.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, which can be readily available to meet liquidity requirements.

iii) **Market Risk**

Market Risk is the risk that changes in market prices - such as profit 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

ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

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

Equity price risk

Equity price risk arises from investments in fair value through profit or loss and available-for-sale equity investments. 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.

6 Financial risk management *(continued)*

iii) **Market Risk *(continued)***

Equity price risk *(continued)*

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 available-for-sale investments and fair value through profit or loss, a 5% increase in the two markets at the reporting date would have increased equity by AED 5 million (31 December 2012: AED 5.5 million) and consolidated statement of profit or loss by AED 0.7 million (31 December 2012: AED 0.4 million) an equal change in the opposite direction would have decreased equity by a similar amount.

Profit rate risk

The Group is exposed to profit rate risk on its profit bearing assets and liabilities (financing and investing assets, Islamic deposits and wakalah deposits).

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in profit rates on the Group's profit for the year, based on the fixed rate financial assets and financial liabilities held at 31 December 2013.

A change in the profit rate by 100b.p. would have increased consolidated statement of profit or loss by AED 5.8 million and an equal change in the opposite direction would have decreased consolidated statement of profit or loss by a similar amount.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency.

As at the reporting date, the significant foreign currency exposure is in Egyptian Pounds relating to investment in securities with a carrying value of AED 101 million.

Sensitivity analysis - currency risk

The Group is exposed to currency risk mainly in Egyptian pounds, as a change of 100 basis points in the AED exchange rate would have an impact on the equity by AED 1 million and an equal change in the opposite direction would have decreased equtiy by a similar amount.

iv) 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. Operational risks arise from all of the Group's operations.

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.

7 Capital management

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

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

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

The Group has complied with all regulatory requirements issued by the Central Bank of the UAE during the year, in respect of the Company and Mawarid Exchange LLC.

8 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 Fair Value		Others at	
At 31 December 2013	**FVTPL**	**AFS**	**amortised cost**	**Total carrying amount**
	AED '000	**AED '000**	**AED '000**	**AED '000**
Financial assets				
Cash and bank balances	**-**	**-**	**320,960**	**320,960**
Financing and investing assets	**-**	**-**	**366,155**	**366,155**
Investment in securities	**54,831**	**124,872**	**-**	**179,703**
Other assets (excluding prepayments)	**-**	**-**	**71,097**	**71,097**
	54,831	**124,872**	**758,212**	**937,915**
Financial liabilities				
Wakalah deposits	**-**	**-**	**195,662**	**195,662**
Other liabilities	**-**	**-**	**34,826**	**34,826**
	-	**-**	**230,488**	**230,488**
At 31 December 2012				
Financial assets				
Cash and bank balances	-	-	213,405	213,405
Financing and investing assets	-	-	399,943	399,943
Investment in securities	13,108	117,745	-	130,853
Other assets (excluding prepayments)	-	-	24,390	24,390
	13,108	117,745	637,738	768,591
Financial liabilities				
Wakalah deposits	-	-	151,841	151,841
Other liabilities	-	-	20,401	20,401
	-	-	172,242	172,242

9 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 judgment 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 profit 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.

i) *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.

	Level 1	Level 2	Level 3	Total
At 31 December 2013				
Financial assets	**AED '000**	**AED '000**	**AED '000**	**AED '000**
FVTPL	**13,673**	**41,158**	**-**	**54,831**
AFS	**-**	**715**	**124,157**	**124,872**
	13,673	**41,873**	**124,157**	**179,703**
Non financial assets				
Investment properties	**-**	**93,800**	**-**	**93,800**
	-	**93,800**	**-**	**93,800**
At 31 December 2012				
Financial assets				
FVTPL	8,108	5,000	-	13,108
AFS	-	764	116,981	117,745
	8,108	5,764	116,981	130,853
Non financial assets				
Investment properties	-	165,175	-	165,175
	-	165,175	-	165,175

9 Fair value of financial instrument *(continued)*

ii) Level 3 fair value measurement reconciliations

	31 December 2013 AED '000
Opening balance	**116,981**
Total gains/(losses) in consolidated statement of comprehensive income	**(9,588)**
Purchases	**16,764**
	124,157

iii) *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 AED '000**	**Level 2 AED '000**	**Level 3 AED '000**	**Total fair value AED '000**	**Total carrying amount AED '000**
Financial assets					
Cash and bank balances	**-**	**320,960**	**-**	**320,960**	**320,960**
Financing and investing assets	**-**	**366,155**	**-**	**366,155**	**366,155**
Other assets (excluding prepayment)	**-**	**71,097**	**-**	**71,097**	**71,097**
	-	**758,212**	**-**	**758,212**	**758,212**
Financial liabilities					
Wakalah deposits	**-**	**195,662**	**-**	**195,662**	**195,662**
Other liabilities	**-**	**34,826**	**-**	**34,826**	**34,826**
	-	**230,488**	**-**	**230,488**	**230,488**

Movements in level 3 financial instruments measured at fair value

There was no movement between the levels of financial instruments during the year *(2012: AED nil)*.

- In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to it's fair value.
- In respect of investments in sukuks/bonds, 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.
- Financing and investing assets to customers are fair valued based on DCF which takes into account original underlying cash borrower credit grading and expected prepayments. These features are used to estimate expected cash flows and discounted at risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.
- Fair values of wakalah deposits 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.

10 Cash and bank balances

	Note	**31 December 2013 AED '000**	31 December 2012 AED '000
Balances with Central Bank of UAE		**11,646**	4,652
Current accounts with banks		**39,184**	36,060
Cash in hand	10.1	**1,387**	104
Islamic deposits with banks and other financial institutions	10.2	**268,743**	172,589
		320,960	213,405

10 Cash and bank balances *(continued)*

10.1 Cash in hand mainly comprises of balance held by Mawarid Exchange LLC.

10.2 Average profit rate on Islamic deposits ranges from 0.5% to 2.5% (31 December 2012: 0.5% to 2.5%) per annum. All deposits and amounts are held with financial institutions within United Arab Emirates.

11 Cash and cash equivalents

	31 December 2013	31 December 2012
	AED '000	AED '000
Cash in hand, at banks and balances with Central Bank of UAE	**52,217**	40,816
Islamic deposits with original maturity of less than 3 months.	**85,000**	130,000
	137,217	170,816

12 Financing and investing assets

	31 December 2013	31 December 2012
	AED '000	AED '000
Financing assets		
Ijarah	**147,371**	163,726
Forward ijarah	**98,867**	111,516
Vehicle murabaha	**15,802**	19,174
Plot murabaha	**7,559**	12,131
Commodity murabaha micro financing	**122,477**	115,601
	392,076	422,148
Provision for impairment	**(26,128)**	(26,128)
	365,948	396,020
Investing asset		
Musharaka	**207**	3,923
Financing and investing assets – net	**366,155**	399,943

All financing and investing assets are based in UAE.

The movement for provision for impairment is as follows:

	31 December 2013	31 December 2012
	AED '000	AED '000
Impairment		
Opening balance	**26,128**	13,508
Net movement during the year	**-**	12,620
Closing balance	**26,128**	26,128

13 Provision for impairment

	31 December 2013	31 December 2012
	AED '000	AED '000
Charge for the year	**-**	12,316
Reversal made during the year	-	(2,127)
	-	10,189

14 Investment properties

	Note	**31 December 2013 AED '000**	31 December 2012 AED '000
Opening balance		**165,175**	87,702
Additions		**-**	77,473
Disposals		**(89,100)**	-
Gain on fair value and disposal	14.1	**17,725**	-
		93,800	165,175

14.1 During the year, the Company sold an investment property in Dubai for AED 89.1 million (net). The gain on disposal amounted to AED 11.6 million, which is included in fair value gain of AED 17.7 million.

14.2 *Investment properties by type*

	31 December 2013 AED '000	31 December 2012 AED '000
Land	**62,600**	62,600
Buildings	**31,200**	102,575
	93,800	165,175

14.3 *Investment properties related income and expenses*

	31 December 2013 AED '000	31 December 2012 AED '000
Rental income	**6,396**	1,118
Repairs and maintenance charges	**(772)**	(613)

15 Investment in securities

	Note	**31 December 2013 AED '000**	31 December 2012 AED '000
Financial assets at FVTPL	15.1	**54,831**	13,108
AFS Investments	15.2	**124,872**	117,745
		179,703	130,853

15.1 Financial assets at FVTPL

	31 December 2013 AED '000	31 December 2012 AED '000
Equity securities-Quoted	**13,673**	8,108
Sukuks and Funds-Quoted	**41,158**	5,000
	54,831	13,108

15.2 AFS Investments

	31 December 2013 AED '000	31 December 2012 AED '000
Equity securities- Unquoted	**101,871**	111,384
Sukuks and Funds- Unquoted	**23,002**	6,360
	124,872	117,745

16 Investment in associates

List of Associates

Name	Holding 31 December 2013	Holding 31 December 2012	Country of incorporation	Principal Activities
Dar Al Takaful P.J.S.C	**22%**	35%	UAE	Takaful and retakaful (insurance)
Levant Retail Holdings Limited	**47.6%**	35.7%	UAE	Investment holding special purpose entity
Naxos Finance Limited	**47.6%**	35.7%	Cayman Island	Investment holding special purpose entity
Quick Net LLC	**20%**	20%	UAE	Card personalisation services

The summarised financial information of the Group's associate is as follows:-

	31 December 2013 AED '000	31 December 2012 AED '000
Dar Al Takaful P.J.S.C	**23,765**	34,508
Levant Retail Holdings	**103,540**	82,983
Naxos Finance	**13,967**	12,472
Quick Net LLC	**3,292**	3,884
	144,564	133,847

	31 December 2013 AED '000	31 December 2012 AED '000
Total assets	**560,384**	471,507
Total liabilities	**(244,352)**	(132,876)
Net assets	**316,032**	338,631
Share of:		
Profit from continuing operations	**28,636**	16,023

17 Goodwill

Goodwill arising on acquisition of subsidiaries is allocated to the Group's cash generating unit ("CGU") as follows:-

	31 December 2013 AED '000	31 December 2012 AED '000
TACME	**8,630**	8,630
Falcon Eye Technology LLC	**9,627**	-
	18,257	8,630

a) Subsidiary acquired during the year is as follows :

Name of Subsidiary	Date of acquisition	Percentage of ownership
Falcon Eye Technology LLC	1 January 2013	51%

b) The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

	Assets AED'000	Liabilities AED'000	Net assets AED'000
Current	**33,982**	**11,278**	**22,704**
Non current	**288**	**693**	**(405)**
Total	**34,270**	**11,971**	**22,299**

17 Goodwill (continued)

Goodwill arising from the acquisition has been recognised as follows.

	31 December 2013
	AED '000
Consideration	21,000
Total net assets acquired (51% of net assets)	(11,373)
Goodwill	**9,627**

The Group's management performed the purchase price allocation and concluded that the difference between the consideration payable and the net assets acquired will be accounted for as goodwill.

As of 31 December 2013, the Group has paid an amount of AED 19.3 million as part of the total consideration amount. The balance has been recorded in other liabilities in the consolidated financial statement.

The Group's management performed goodwill impairment testing by using Comprabale Companies Multilple ("CCM") method, and found that no impairment loss needs to be recognised in the consolidated financial statement.

18 Property and equipment

	Freehold land AED '000	Office building AED '000	Furniture and fixtures AED '000	Office and IT equipment AED '000	Motor vehicles AED '000	Total AED '000
Cost						
At 1 January 2012	52,324	26,473	4,822	10,348	74	94,041
Additions	-	-	2,244	2,291	210	4,745
Disposals	-	-	(3,171)	-	(69)	(3,240)
At 31 December 2012	52,324	26,473	3,895	12,639	215	95,546
At 1 January 2013	52,324	26,473	3,895	12,639	215	95,546
Additions			2,526	2,829	153	5,508
On acquisition of	-	-	-	-	-	
Falcon eye	-	-	73	184	33	290
Transferred to associate	-	-	(145)	(785)	-	(930)
Disposals	-	-	(747)	(162)	-	(909)
At 31 December 2013	52,324	26,473	6,494	15,652	401	99,505
Accumulated depreciation						
At 1 January 2012	-	4,781	3,873	9,281	69	18,004
Charge for the year	-	1,580	1,412	1,082	62	4,136
Disposals			(2,981)		(69)	(3,050)
At 31 December 2012	-	6,361	2,304	10,363	62	19,090
Accumulated depreciation						
At 1 January 2013	-	6,361	2,304	10,363	62	19,090
Charge for the year	-	1,708	906	1,426	96	4,136
Transferred to associate	-	-	(38)	(231)	-	(269)
Disposals	-	-	(643)	(159)	-	(802)
At 31 December 2013	-	8,069	2,529	11,399	158	22,155
Carrying amount						
At 31 December 2012	52,324	20,112	1,591	2,276	153	76,456
At 31 December 2013	**52,324**	**18,404**	**3,965**	**4,253**	**243**	**77,350**

18.1 Freehold land is held with an intention to build office premises for the Group.

19 Intangible assets

	Note	**31 December 2013 AED '000**	31 December 2012 AED '000
Opening balance as of 1 January		**10,068**	-
Software development cost	19.1	**1,896**	9,743
Amortisation of software development cost		**(3,380)**	(2,748)
Mawarid exchange license	19.2	**3,073**	3,073
		11,657	10,068

19.1 Intangible assets represent the capitalisation of software development cost by a subsidiary, Technical Art Concept (TACME) LLC and is amortised on straight-line basis over five years.

19.2 Intangible assets also include an Exchange License attained in respect of acquiring 90% of the issued share capital of Mawarid Exchange LLC. As license has an infinite useful life, therefore no amortisation is being charged.

20 Other assets

	Note	**31 December 2013 AED '000**	31 December 2012 AED '000
Advances to suppliers		**1,548**	1,118
Advances to Etisalat Misr		**2,987**	3,266
Staff receivable		**692**	292
Prepayments		**3,945**	1,668
Due from customers	20.1	**46,187**	12,380
Others		**19,683**	7,334
		75,042	26,058

20.1 The Group has adopted a policy of dealing with only creditworthy counterparties. Adequate credit assessment is made before accepting an order for sale of goods from any counterparty.

No profit is charged on amount due from customers. The Group does not have any past history of significant defaults of due from customers. The Company provides for receivables on case to case basis where subsequent developments suggest that recovery of amounts due is doubtful.

21 Share capital

	31 December 2013 AED '000	31 December 2012 AED '000
Authorised issued and paid up capital:		
1 billion ordinary shares of AED 1 each	**1,000,000**	1,000,000
Treasury shares - 6 million ordinary shares of AED 1 each owned by Group's subsidiary	**(6,000)**	(6,000)

22 Statutory reserve

In accordance with Article (82) of Union Law No. 10 of 1980, Federal Commercial Companies Law, the Company has established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution.

23 General reserve

In accordance with the Articles of Association of the Company, 10% of the Company's net profit for the year is transferred to the general reserve until the reserve equals to 50% of the paid up share capital. This reserve may be used for purposes determined by the Ordinary General Assembly pursuant to a proposal by the Board of Directors.

24 Non-Controlling Interest

List of Subsidiaries

Name	Holding 31 December 2013	Holding 31 December 2012	Country of incorporation	Principal Activities
Al Jazeera Financial Services LLC	**100%**	55%	UAE	Brokerage business
MFI Investments LLC	**100%**	100%	UAE	Holding company
Mawarid Consultancy (FZE)	**100%**	100%	UAE	Operational services
Technical Art Concepts (TACME)	**51%**	51%	UAE	IT services
Mawarid Exchange LLC	**90%**	90%	UAE	Money exchange
Falcon Eye Technology LLC	**51%**	-	UAE	Security system services

24 Non-Controlling Interest *(continued)*

The following table summaries the information relating to each of the Group's subsidiaries as at the reporting date, before any intra group eliminations:-

	Al Jazeera Financial Services LLC	Technical Art Concepts (TACME)	Mawarid Exchange LLC	Falcon Eye Technology LLC
At 31 December 2013		**AED '000**	**AED '000**	**AED '000**
NCI percentage	-	**49%**	**10%**	**49%**
Non current assets	-	**10,702**	**602**	**357**
Current assets	-	**16,351**	**42,532**	**40,482**
Non current liabilities	-	**(794)**	**(42)**	**(1,189)**
Current liabilities	-	**(7,174)**	**(212)**	**(13,849)**
Net assets	-	**19,085**	**42,880**	**25,801**
Carrying amount of NCI	-	**9,352**	**4,288**	**12,642**
Revenue	-	**14,874**	**23**	**14,147**
Profit/(loss)	-	**6,135**	**(3,134)**	**2,502**
Other comprehensive income ("OCI")		**-**	**-**	**-**
Total comprehensive income		**6,135**	**(3,134)**	**2,502**
Profit/(loss) allocated to NCI	-	**3,006**	**(313)**	**1,226**
OCI allocated to NCI		**-**	**-**	**-**
Cash flows from operating activities	-	5,207	(374)	255
Cash flows from investing activities	-	(3,272)	(34)	(100)
Cash flows from financing activities	-	(2,303)	-	220
Net (decrease)/increase in cash and cash equivalents	-	**(368)**	**(408)**	**374**

During the year the minority shareholders of Al Jazeera Financial Services LLC ("AJFS") with an equity stake of 45% have consented to transfer the shares held by them to MFI Investments LLC another subsidiary, which resulted in AJFS to be 100% subsidiary of the Company. Shares would be transferred once all the legal formalities with regard to the transfer of shares is completed.

24 Non-Controlling Interest *(continued)*

The following table summaries the information relating to each of the Group's subsidiaries as at the reporting date, before any intra group eliminations:-

	Al Jazeera Financial Services LLC	Technical Art Concepts (TACME)	Mawarid Exchange LLC	Falcon Eye Technology LLC
At 31 December 2012	**AED '000**	**AED '000**	**AED '000**	**AED '000**
NCI percentage	**45%**	**49%**	**10%**	**49%**
Non current assets	6,895	8,313	697	-
Current assets	19,531	16,161	47,567	-
Non current liabilities	(20,257)	(564)	(11)	-
Current liabilities	(4,501)	(10,961)	2,260	-
Net assets	1,668	12,949	50,513	-
Carrying amount of NCI	751	6,345	5,051	-
Revenue	401	9,164	4	-
Profit/(loss)	(1,104)	3,869	(3,985)	-
OCI	-	-	-	-
Total comprehensive income	(703)	3,869	(3,981)	-
Profit/(loss) allocated to NCI	(497)	1,896	(399)	-
OCI allocated to NCI	-	-	-	-
Cash flows from operating activities	2,140	865	(404)	-
Cash flows from investing activities	1,041	(2,921)	(62)	-
Cash flows from financing activities	3,556	2,954	5,000	-
Net increase in cash and cash equivalents	6,737	898	4,534	-

Falcon Eye Technology has been acquired on 1 January 2013 by the Parent Company and therefore no comparative figures are available.

25 Wakalah deposits

	31 December 2013 AED '000	31 December 2012 AED '000
Qard-e-hasan from customers	**17,187**	4,826
Other deposits	**36,075**	36,500
Margin against kafala	**142,400**	110,515
	195,662	151,841

26 Other liabilities

	31 December 2013 AED '000	31 December 2012 AED '000
Employees end of service benefits	**4,650**	3,800
Accounts payable	**12,280**	1,910
Profit payable	**721**	404
Accrued liabilities	**5,056**	3,361
Others	**16,769**	14,726
	39,476	24,201

27 Income from financing and investing assets

	31 December 2013 AED '000	31 December 2012 AED '000
Ijarah	**11,610**	20,520
Musharaka	**183**	370
Vehicle murabaha	**1,744**	1,812
Plot murabaha	**634**	1,010
Commodity murabaha micro financing	**13,213**	11,292
	27,384	35,004

28 Income from Islamic deposits and wakalah placements

	31 December 2013 AED '000	31 December 2012 AED '000
Profit from wakala placement	**2,308**	4,879
Profit from murabaha placement	**294**	369
	2,602	5,248

29 Revenue and cost of sales for IT and security system services

Revenue and cost of sales pertains to the subsidiary TACME which is engaged in the business of providing full range of IT services and Falcon Eye Technology LLC engaged in business of supply and installation of equipment for security system services.

Revenue	**31 December 2013**	31 December 2012
	AED '000	AED '000
Revenue from TACME	**30,356**	18,703
Revenue from Falcon Eye	**28,872**	-
	59,228	18,703

Cost of sales	**31 December 2013**	31 December 2012
	AED '000	AED '000
Cost of sales from TACME	**16,612**	8,703
Cost of sales from Falcon eye	**18,798**	-
	35,410	8,703

30 Other income

	31 December 2013	31 December 2012
	AED '000	AED '000
Rental income from investment properties	**6,396**	1,118
Brokerage commission and consulting income	**1,566**	1,702
Other operating income	**5,155**	982
	13,117	3,802

31 General and administrative expenses

	Note	**31 December 2013**	31 December 2012
		AED '000	AED '000
Staff cost	31.1	**33,772**	24,983
Depreciation expense		**3,672**	3,442
Legal, consulting and professional charges		**8,330**	5,830
Rental expense		**2,390**	1,944
Telephone expense		**1,178**	876
Advertising and marketing expense		**769**	482
Insurance charges		**229**	193
Other operating expenses		**7,180**	3,875
		57,519	41,625

31.1 Average number of employees as at 31 December 2013 were 285 (31 December 2012: 269).

32 Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard 24 Related Party Disclosures. Related parties comprise companies and entities under common ownership and/or common management and control, their partners and key management personnel. The management decides on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges.

a) Balances with related parties included in the consolidated statement of financial position are as follows:

	31 December 2013		
	Shareholders	**Directors and key management**	**Other related parties**
	AED '000	**AED '000**	**AED '000**
Assets			
Cash and bank balances	**1,388**	**-**	**-**
Financing and investing assets	**-**	**13,453**	**49,380**
Liability			
Wakalah deposits	**-**	**-**	**32,889**

	31 December 2012		
	Shareholders	Directors and key management	Other related parties
	AED '000	AED '000	AED '000
Assets			
Cash and bank balances	6,080	-	-
Financing and investing assets	-	3,014	83,533
Liability			
Wakalah deposits	-	-	40,827

32 Related party transactions *(continued)*

b) Transactions with related parties included in the consolidated statement of profit or loss are as follows:

	31 December 2013		
	Key shareholders	**Directors and key management**	**Other related parties**
	AED '000	**AED '000**	**AED '000**
Income from financing and investing assets	**-**	**159**	**4,257**
Depositors' share of profits	**-**	**-**	**251**
Other income	**-**	**37**	**19**

	31 December 2012		
	Key shareholders	Directors and key management	Other related parties
	AED '000	AED '000	AED '000
Income from financing and investing assets	-	1,087	8,051
Depositors' share of profits	-	-	484
Other income	-	11	6

c) Compensation paid to key management personnel of the Group is as follows:

	31 December 2013	31 December 2012
	AED '000	AED '000
Short term benefits	**1,655**	1,930
Employees' end of service benefits	**138**	147
	1,793	2,077

33 Commitments and contingent liabilities

a) Commitments

	Note	**31 December 2013**	31 December 2012
		AED '000	AED '000
Irrevocable commitments to extend credit	33.1	**12,780**	11,393

33.1 Irrevocable commitments to extend credit include commitments to extend Islamic financing designed to meet the requirements of the Group's customers. Commitments generally have fixed expiration dates, or other termination clauses, and normally require the payment of a fee.

33.2 The Group has signed an agreement with a contractor on 16 February 2013 to construct a building on one of the land which is being classified as investment property in the consolidated financial statements. The building is expected to be finalised by June 2016. Total value of the contract is AED 117 million.

33 Commitments and contingent liabilities *(continued)*

b) Contingent liabilities

The Group has issued guarantees on behalf of some customers amounting to AED 198 million (31 December 2012: AED 158 million).

The Group has given a bank guarantee, issued by a local financial institution, mainly in favor of the Central Bank of the UAE for an amount of AED 35 million (31 December 2012: AED 35 million). This guarantee is provided to the Central Bank of the UAE against issuance of the license and management does not anticipate that any material liability to arise.

The Group's related party, Al Jazeera Financial Services LLC has given a bank guarantee issued by a local financial institution, for an amount of AED 20 million (31 December 2012: AED 20 million) in favor of Dubai Financial Market and Abu Dhabi Stock Exchange.

34 Zakat

Zakat as approved by the Company's Fatwa and Sharia Supervisory Board (FSSB) amounted to AED 0.0182 *(2012: AED 0.01956)* per share. This information is to be communicated to all shareholders through the Company's website. Shareholders are required to pay Zakat on their own account.

35 Approval of consolidated financial statements

The consolidated financial statement was approved by the Board of directors and authorised for issue on 31 March 2014.

36 Comparative figures

Certain comparative figures have been reclassified, wherever necessary, to conform to the presentation adopted in these consolidated financial statements.