Mashreq Al-Islami Finance Company (P.J.S.C.)
Dubai - United Arab Emirates

Report and financial statements
for the year ended 31 December 2013

Mashreq Al-Islami Finance Company (P.J.S.C.)

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Mashreq Al-Islami Finance Company (P.J.S.C.)
Dubai
United Arab Emirates

Report on the Financial Statements

We have audited the accompanying financial statements of **Mashreq Al-Islami Finance Company (P.J.S.C.), Dubai** (the "Company"), which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Cont'd...

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Mashreq Al-Islami Finance Company (P.J.S.C.), Dubai** as at 31 December 2013, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

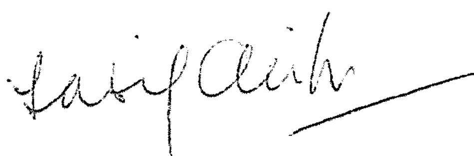
Also, in our opinion, the Company has maintained proper books of accounts. We obtained all the information and explanations which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended), or of the Company's Articles of Association which might have materially affected the financial position of the Company or its financial performance.

Deloitte & Touche (M.E.)

Anis Sadek
Registration No. 521
24 March 2014

Statement of financial position
as at 31 December 2013

	Notes	2013 AED	2012 AED
ASSETS			
Cash and cash equivalents	5	**80,010,197**	169,783,406
Other financial assets measured at fair value through other comprehensive income (FVTOCI)	6	-	41,585,434
Islamic financing products measured at amortised cost	8	**784,213,760**	492,791,425
Other financial assets measured at amortised cost	6	**14,474,482**	19,099,518
Other receivables and assets	9	**201,425**	338,143
Property and equipment	10	**171,544,197**	200,914,190
Total assets		**1,050,444,061**	924,512,116
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to a bank	7	**444,915,590**	340,208,084
Other payables	11	**1,070,027**	3,651,794
Total liabilities		**445,985,617**	343,859,878
Shareholders' equity			
Issued and paid up share capital	12	**500,000,000**	500,000,000
Statutory reserve	13	**9,902,268**	7,555,009
Investments revaluation reserve		-	8,059,163
Retained earnings		**94,556,176**	65,038,066
Total shareholders' equity		**604,458,444**	580,652,238
Total liabilities and shareholders' equity		**1,050,444,061**	924,512,116



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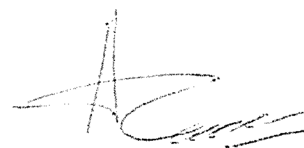
Tooran Asif
Chief Executive Officer



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Ali Raza Khan
Head of Corporate Affairs

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

Income statement
for the year ended 31 December 2013

	Notes	2013 AED	2012 AED
Income			
Income from Murabaha		**25,158,352**	17,300,402
Income from Ijara		**20,271,351**	13,413,220
Income from Mudaraba deposits	7	**743,267**	1,596,016
Income from investment in Sukuk	6	**198,024**	1,725,906
Fees and commission income	14	**11,020,615**	2,727,101
Total income		**57,391,609**	36,762,645
Expenses			
General and administrative expenses	15	**(389,758)**	(714,818)
Impairment of Islamic financing products measured at amortised cost, net	16	**(4,159,269)**	(9,099,331)
Impairment of property & equipment	10	**(29,369,993)**	(11,938,815)
Total expenses		**(33,919,020)**	(21,752,964)
Profit for the year		**23,472,589**	15,009,681

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

Statement of comprehensive income
for the year ended 31 December 2013

	2013 AED	2012 AED
Profit for the year	**23,472,589**	15,009,681
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of other financial assets measured at fair value through other comprehensive income (FVTOCI)	**333,617**	4,984,060
Total other comprehensive income for the year	**333,617**	4,984,060
Total comprehensive income for the year	**23,806,206**	19,993,741

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

Statement of changes in shareholders' equity for the year ended 31 December 2013

	Issued and paid up share capital AED	Statutory reserve AED	Investments revaluation reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2012	500,000,000	6,054,041	3,075,103	51,529,353	560,658,497
Profit for the year	-	-	-	15,009,681	15,009,681
Other comprehensive income for the year	-	-	4,984,060	-	4,984,060
Total comprehensive income for the year	-	-	4,984,060	15,009,681	19,993,741
Transferred to statutory reserve	-	1,500,968	-	(1,500,968)	-
Balance at 31 December 2012	500,000,000	7,555,009	8,059,163	65,038,066	580,652,238
Profit for the year	-	-	-	**23,472,589**	**23,472,589**
Other comprehensive income for the year	-	-	**333,617**	-	**333,617**
Total comprehensive income for the year	-	-	**333,617**	**23,472,589**	**23,806,206**
Transferred to statutory reserve	-	**2,347,259**	-	**(2,347,259)**	-
Transfer from investment revaluation reserve to retained earnings (Note 6a)	-	-	**(8,392,780)**	**8,392,780**	-
Balance at 31 December 2013	**500,000,000**	**9,902,268**	-	**94,556,176**	**604,458,444**

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

Statement of cash flows
for the year ended 31 December 2013

	Notes	2013 AED	2012 AED
Cash flows from operating activities			
Profit for the year		**23,472,589**	15,009,681
Adjustments for:			
Depreciation of property and equipment	10	**-**	111,311
Impairment of property and equipment	10	**29,369,993**	11,938,815
Impairment of Islamic financing products measured at amortised cost	16	**4,159,269**	9,099,331
Loss from disposal of property and equipment	15	**-**	225,605
Operating cash flows before changes in operating assets and liabilities		**57,001,851**	36,384,743
Increase in Islamic financing products measured at amortised cost		**(295,581,604)**	(182,108,250)
Decrease in other receivables and assets		**136,718**	123,926
(Decrease)/increase in other payables		**(2,581,767)**	1,739,729
Net cash used in operating activities		**(241,024,802)**	(143,859,852)
Cash flows from investing activities			
Decrease in other financial assets measured at amortised cost		**4,625,036**	129,609,161
Proceeds on disposal of other financial assets measured at FVTOCI		**41,919,051**	-
Net cash generated from investing activities		**46,544,087**	129,609,161
Cash flows from financing activities			
Increase in due to a bank		**104,707,506**	25,374,385
Net cash generated from financing activities		**104,707,506**	25,374,385
Net (decrease)/increase in cash and cash equivalents		**(89,773,209)**	11,123,694
Cash and cash equivalents at 1 January		**169,783,406**	158,659,712
Cash and cash equivalents at 31 December (Note 5)		**80,010,197**	169,783,406

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

Notes to the financial statements
for the year ended 31 December 2013

1. General information

Mashreq Al-Islami Finance Company (P.J.S.C.) (the "Company") is a private joint-stock company and is a subsidiary of Mashreqbank psc, Dubai (the "Parent Company"). The Company was incorporated in the United Arab Emirates under a trade license issued by the Department of Economic Development of the Government of Dubai.

The address of the registered office of the Company is P.O. Box 1250, Dubai, United Arab Emirates.

The Company carries out financing activities through various Islamic instruments, in accordance with Islamic Shari'a principles which include prohibition of usury.

Shari'a Supervisory Board

The Company's business activities are subject to the supervision of the Shari'a Supervisory Board which is entrusted with the duty of reviewing and directing the activities of the Company in accordance with the Islamic Shari'a rules and principles.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

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

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

- **IFRS 13 *Fair Value Measurements***

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS17 *Leases and measurements* that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purpose).

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

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the standard. Other than additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the financial statements.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.1 New and revised IFRSs affecting the amounts reported or/and disclosures in the financial statements (continued)

- **Amendments to IAS 1 Presentation of Items of Other Comprehensive Income**

The Company has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year except for the name changes described below. The amendments introduce new terminology, whose use is not mandatory, for the statement of income and statement of comprehensive income. Under the amendments to IAS 1, the statement of comprehensive income is renamed as the statement of profit or loss and other comprehensive income and the statement of income is renamed as the statement of profit or loss.

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

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

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

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

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

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

- Amendments to IFRS 7 *Financial Instruments : Disclosure* - Enhancing Disclosures about Offsetting of Financial Assets and Financial Liabilities.

- Amendment to IFRS 9 *Financial Instruments* – Including new general hedge accounting model.

- IFRS 10 *Consolidated Financial Statements* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* have been amended for the issuance of IFRS 10.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs applied with no material effect on the financial statements (continued)

- IFRS 11 Joint Arrangements establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly, IAS 28 Investments in Associates and Joint Ventures has been amended for the issuance of IFRS.

- IFRS 12 Disclosure of Interests in Other Entities combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard.

- Amendments to IAS 19 *Employee Benefits* eliminate the "corridor approach" and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.

- Annual Improvements to IFRSs 2009 - 2011 Cycle

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

  - *IAS 16 Property, Plant and Equipment* - Classification of servicing equipment.
  - *IAS 32 Financial Instruments: Presentation* - Tax effect of the distribution to the holders of equity instruments.

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

The Company has not early applied the following new standards, amendments and interpretations that have been issued but not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IAS 19 *Employee Benefits* - to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014
• Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IAS 36 – *recoverable amount disclosures*	1 January 2014
The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to period in which an impairment loss has been recognized or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.	
• Amendments to IAS 39 *Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting*	1 January 2014
The amendment allows the continuation of hedge accounting when derivative is novated to a clearing counterparty and certain conditions are met.	
• IFRIC 21 *Levies*	1 January 2014
Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs.	
• Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities	1 January 2014
On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The amendments establish an exception to IFRS 10's general consolidation principle for investment entities, requiring them to "measure particular subsidiaries at fair value through profit or loss, rather than consolidate them." In addition, the amendments outline required disclosures for reporting entities that meet the definition of an investment entity.	

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
• Annual Improvements to *IFRSs 2010 - 2012 Cycle* o *IFRS 2 Share Based Payments* - definition of 'vesting condition'. o *IFRS 3 Business Combinations* - accounting for contingent consideration. o *IFRS 8 Operating Segments* - aggregation of segments, reconciliation of segment assets. o *IAS 16 Property. Plant and Equipment* - proportionate restatement of accumulated depreciation on revaluation. o *IAS 24 Related Party Disclosures* - management entities. o *IAS 38 Intangible Assets* - proportionate restatement of accumulated depreciation on revaluation.	1 July 2014
• Annual Improvements to *IFRSs 2011 - 2013 Cycle* o *IFRS 3 Business Combinations* - scope exception for joint ventures. o *IFRS 13 Fair Value Measurement* - scope of the portfolio exception. o *IAS 40 Investment Property* - interrelationship between IFRS 3 and IAS 40.	1 July 2014

Management is reviewing the impact of these new standards, interpretations and amendments that will be adopted in the Company's financial statements for the period beginnning 1 January 2014 or as and when they are applicable.

3. Significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Shari'a rules and principles as determined by the Company's Shari'a Supervisory Board to the extent that those are compatible with IFRS and applicable requirements of U.A.E. laws (including Central Bank of the U.A.E. requirements as related to impairment of financial assets).

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for other financial assets measured at fair value through other comprehensive income (FVTOCI) which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted are set out below.

3. Significant accounting policies (continued)

3.3 Revenue recognition

Income from Islamic financing products

The Company's policy for recognition of income from Islamic financing products is described in Note 3.11 (iii).

Fee and commission income and expenses

Fee and commission income and expenses are accounted for on the date the transaction arises.

3.4 Leasing

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

The Company as lessee

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

3.5 Foreign currencies

These financial statements are presented in United Arab Emirates Dirham (AED) since that is the currency of the country in which the Company is domiciled.

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing at the end of the reporting period. Gains and losses arising from foreign currency transactions are included in the income statement.

3.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any, except for land which is measured at cost less accumulated impairment loss, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement when incurred.

3. Significant accounting policies (continued)

3.6 Property and equipment (continued)

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

Computers, furniture and fixtures	4 - 10 years

The estimated useful lives, residual values and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for that period.

3.7 Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statement.

3. Significant accounting policies (continued)

3.8 Provisions

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

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

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

3.9 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the income statement.

3.9.1 Financial assets

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

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

Classification of financial assets

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

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.1 Financial assets (continued)

Classification of financial assets (continued)

Financial assets measured at amortized cost, including Islamic financing products, are measured at amortised cost if both of the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

Amortised cost and effective profit method

The effective profit method is a method of calculating the amortised cost of a financial asset measured at amortized cost and of allocating profit over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial asset measured at amortized cost, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Profit is recognised on an effective profit basis for financial asset measured subsequently at amortised cost. Profit is recognised in the income statement.

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

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the income statement when the Company's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment.

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.1 Financial assets (continued)

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore, for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial asset measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the income statement.

Impairment of financial assets measured at amortized cost

Financial assets measured at amortized cost are assessed for indicators of impairment at each reporting date. Financial assets measured at amortized cost are impaired where there is an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset measured at amortized cost, the estimated future cash flows of the investment have been impacted. For financial assets measured at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective profit rate.

The carrying amount of the financial asset measured at amortized cost is reduced by the impairment loss directly with the exception of Islamic financing products and other financial assets measured at amortised cost where the carrying amount is reduced through the use of an allowance account. When advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the income statement.

Impairment of retail Islamic financing products is calculated by applying a formulaic approach whereby a provision of 25% of net exposure is made when it is past due by more than 90 days, a provision of 50% of net exposure is made when it is past due by more than 120 days and less than 180 days and a provision of 100% of next exposure is made when it is past due by more than 180 days.

Derecognition of financial assets

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

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

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

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.2 Financial liabilities and equity instruments

Classification as liability or equity

Liability and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Company, and commitments issued by the Company to provide a loan at below-market profit rate are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial liability. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the income statement.

De-recognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in income statement.

3. Significant accounting policies (continued)

3.10 Offsetting of financial assets and liabilities

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

3.11 Islamic financing products

All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Company sells to a customer a commodity or an asset, which the Company has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Ijara

An agreement whereby the Company acting as a lesser, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Mudaraba

Mudaraba is a profit sharing partnership contract between a capital provider (Rab-ul-Mal) and a fund manager (Mudarib). In a depository relationship with the Company, the Company acts as a Mudarib and customer as Rab-ul-Mal whereas in case of a financing or investment mode, the Company acts as the capital provider (Rab ul Mal) and the customer as the Fund Manager (Mudarib). In both of cases Mudaraba Contract is a profit sharing arrangement wherein capital provider bears the risk and the Mudarib (Fund Manager) contributes expertise and management skills. In case of loss, it falls on the financier/investor except in the case of negligence, misconduct and breach of contract by the Mudarib (Fund Manager).

Sukuk

These comprised asset backed Shari'a compliant trust certificates. The trust certificate owners share the return and bear the losses in proportion to the certificates held by them.

3. Significant accounting policies (continued)

3.11 Islamic financing products (continued)

(ii) Accounting policy

Islamic financing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing products when their recovery is in doubt taking into consideration IFRS requirements and the United Arab Emirates UAE Central Bank guidelines. Islamic financing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) Revenue recognition policy

Income from Islamic financing assets are recognised in the income statement using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ijara

Ijara income is recognised on effective profit rate basis over the lease term.

Profit and coupon revenue

Profit and coupon revenue is accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

(i) Impairment of Islamic financing products measured at amortised cost

The Company reviews its Islamic financing products on a regular basis to assess whether a provision for impairment should be recorded in the income statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

Impairment is calculated based on formulaic approach depending on past due payments and is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired Islamic financing products are included in the allowance for impairment and affect the income statement accordingly.

(ii) Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Company's investments are appropriately classified and measured.

5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks and short term bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

	2013 **AED**	2012 AED
Current accounts (Note 7)	**10,197**	59,783,406
Short-term bank deposits – Mudaraba (Note 7)	**80,000,000**	110,000,000
	80,010,197	169,783,406

Short-term bank deposits carries an average profit rate of 0.85% (2012: 0.80%) per annum and having maturity of less than three months from date of placement.

6. Other financial assets

The analysis of the Company's other financial assets is as follows:

	2013	2012
	AED	AED
Other financial assets		
(i) Other financial assets measured at FVTOCI		
Investment funds	-	41,585,434
	-	41,585,434
(ii) Other financial assets measured at amortised cost		
Sukuk	**36,571,113**	41,189,795
Accrued profit from Sukuk	**452,864**	459,218
Less: Allowance for impairment	**(22,549,495)**	(22,549,495)
	14,474,482	19,099,518

(a) During the year the Company sold its investments in mutual and other funds measured at FVTOCI amounting to AED 41.9 million. The revaluation reserve of AED 8.4 million was transferred from the investment revaluation reserve to retained earnings.

(b) The fair value of other financial assets measured at amortised cost amounted to AED 13.1 million as of 31 December 2013 (2012: AED 17.4 million).

(c) During the year ended 31 December 2013, income from investment in Sukuk of AED 0.2 million (2012: AED 1.7 million) was recorded in income statement.

(d) Included in other financial assets measured at amortised cost, investments with a carrying value of AED 24.3 million (2012: AED 24.3 million) were impaired and a specific allowance for impairment of AED 22.5 million (2012: AED 22.5 million) were recorded against these investments (Note 19).

Notes to the financial statements
for the year ended 31 December 2013 (continued)

7. Related party transactions

The Company enters into transactions with the parties 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 key management personnel.

The nature of significant related party transactions and the amounts involved were as follows:

	2013 AED	2012 AED
Parent Company		
Current accounts (Note 5)	**10,197**	59,783,406
Short term bank deposits - Mudaraba (Note 5)	**80,000,000**	110,000,000
Accrued profit on short term bank deposits - Mudaraba (Note 9)	**165,601**	312,595
Due to a bank	**(444,915,590)**	(340,208,084)
Letter of guarantee (Note 17)	**200,000,000**	200,000,000

Amount due to a bank is payable to the ultimate parent company "Mashreqbank psc" and is unsecured without any fixed repayment schedule.

Letter of guarantee provided by the ultimate parent company "Mashreqbank psc" amounted to AED 200 million (2012: AED 200 million).

Profit for the year included significant related party transactions as follows:

	2013 AED	2012 AED
Parent Company		
Income from Mudaraba deposits	**743,267**	1,596,016
Fees and commission income	**649,707**	1,737,026

8. Islamic financing products measured at amortised cost

(a) The analysis of the Company's Islamic financing products measured at amortised cost is as follows:

	2013 AED	2012 AED
Murabaha	**444,047,338**	402,919,322
Ijara	**497,633,790**	267,662,011
	941,681,128	670,581,333
Less: Unearned income	**(124,700,508)**	(137,749,531)
Allowance for impairment	**(32,766,860)**	(40,040,377)
Total	**784,213,760**	492,791,425

8. Islamic financing products measured at amortised cost (continued)

(b) Allowance for impairment movement:

	2013 **AED**	2012 AED
At 1 January	**40,040,377**	46,286,612
Reversal of allowance during the year (Note 16)	**(6,054,837)**	(4,562,718)
Profit suspended during the year	**181,320**	262,826
Written off during the year	**(1,400,000)**	(1,946,343)
At 31 December	**32,766,860**	40,040,377

(c) In certain cases, the Company continues to carry classified doubtful financial assets and delinquent accounts on its books even after making 100% provision for impairment. Profit is recorded on accounts for litigation purposes only and accordingly profit is not accrued or taken to income statement. Receivables are written off only when all legal and other avenues for recovery or settlement are exhausted. The book value of these accounts on which profit is not taken to income statement, including fully provided accounts, amounted to AED 45.9 million at 31 December 2013 (2012: AED 40.3 million).

(d) Included in allowance for impairment, a collective allowance of AED 6.7 million (2012: AED 6.7 million)

(e) In determining the recoverability of Islamic financing products, the Company considers any change in the credit quality of the Islamic financing products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

9. Other receivables and assets

	2013 **AED**	2012 AED
Prepayments	**17,449**	25,548
Accrued profit on short term bank deposits - Mudaraba (Note 7)	**165,601**	312,595
Other receivables	**18,375**	-
	201,425	338,143

10. Property and equipment

	Computers, furniture and fixtures AED	Land AED	Total AED
Cost			
At 1 January 2012	890,248	212,853,005	213,743,253
Written off during the year	(890,248)	-	(890,248)
Impairment	-	(11,938,815)	(11,938,815)
At 31 December 2012	-	200,914,190	200,914,190
Impairment	-	**(29,369,993)**	**(29,369,993)**
At 31 December 2013	-	**171,544,197**	**171,544,197**
Accumulated depreciation			
At 1 January 2012	553,332	-	553,332
Charge for the year (Note 15)	111,311	-	111,311
Written off during the year	(664,643)	-	(664,643)
At 31 December 2012	-	-	-
At 31 December 2013	-	-	-
Carrying amount			
At 31 December 2013	-	**171,544,197**	**171,544,197**
At 31 December 2012	-	200,914,190	200,914,190

During the year ended 31 December 2013, the management recorded an impairment loss of AED 29.4 million (2012: AED 11.9 million) in order to adjust the carrying amount of land to its recoverable amount.

11. Other payables

	2013 AED	2012 AED
Accrued expenses	195,386	101,682
Commission income collected in advance	-	3,550,112
Other payables	874,641	-
	1,070,027	3,651,794

12. Issued and paid up share capital

The issued and fully paid-up capital of the Company comprises of 5,000,000 shares of AED 100 each. As at 31 December 2013 and 2012, share capital is held by the following parties:

	Number of shares	Amount AED
Mashreqbank psc – U.A.E.	4,985,000	498,500,000
Abdul Aziz Abdulla Al Ghurair	5,000	500,000
Injaz Services FZ LLC – U.A.E.	5,000	500,000
Abdulla Bin Ahmed Al Ghurair	5,000	500,000
	5,000,000	500,000,000

13. Statutory reserve

In accordance with the U.A.E. Federal Commercial Companies Law number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of profit for each year until at least the reserve equals 50% of the issued and paid up share capital. This reserve is not available for distribution.

14. Fees and commission income

	2013 AED	2012 AED
Insurance related income	6,627,082	-
Loan prepayment and settlement income	1,258,443	76,734
Loan processing fees	2,486,601	899,059
Other	648,489	1,751,308
	11,020,615	2,727,101

15. General and administrative expenses

	2013 **AED**	2012 AED
Professional fees	**157,280**	269,303
Commission expense	**125,181**	-
Loss from disposal of property and equipment	-	225,605
Government fees	**27,870**	26,486
Depreciation of property and equipment (Note 10)	-	111,311
Stationery and related expenses	-	4,169
Insurance related expenses	**78,568**	76,985
Other	**859**	959
	389,758	714,818

16. Allowance for impairment, net

	2013 **AED**	2012 AED
Reversal of allowance during the year (Note 8)	**6,054,837**	4,562,718
Impaired and write-off of impaired Islamic financing products	**(10,214,106)**	(13,662,049)
	(4,159,269)	(9,099,331)

17. Contingencies

	2013 **AED**	2012 AED
Letter of guarantee (Note 7)	**200,000,000**	200,000,000

The letter of guarantee has been issued on behalf of the Company by the Parent Company without any commission charges.

18. Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the borrowings and equity balance. The Company's overall strategy remains unchanged from the year ended 31 December 2012.

19. Risk management

The Parent Company sets and monitors the risk management function of the Company. The Company has risk management infrastructure supported by adoption of the best practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

- Credit risk management
- Liquidity risk management
- Market risk management (currency risk, profit risk and fair value of financial instruments)
- Operational risk management

The Parent Company's Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee work under the mandate of the Board of Directors (BOD) to set up risk limits and manage the overall risk in the Company. These committees approve risk management policies of the Company developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management framework and the risk appetite of the Company. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Company. In addition to setting the credit policies of the Company, the Risk Committee also establishes various concentration limits, approves policy exceptions and monitors periodic portfolio reviews to ascertain portfolio quality.

The Risk Management Group function is independent of the business and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. The Risk Management Group is responsible for developing credit, market and operational risk policies. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risks.

The Risk Management Group oversees credit, market and operational risks. Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the credit worthiness of counterparties.

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

The Company seeks to manage its credit risk exposure through diversification of financing and investment activities to avoid undue concentrations of risks with individuals or Companys of customers in specific locations or businesses. It also obtains security when appropriate.

Policies relating to credit are reviewed and approved by the parent Company's Credit Policy Committee. All credit lines are approved centrally by the Company's Credit Risk Management Division in accordance with the Company's credit policy set out in the Credit Policy Manual.

19. Risk management (continued)

Credit risk management (continued)

Retail credit risk management

Retail credit risk is managed on a product basis. Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Parent Company's Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models and policies.

All approval authorities are delegated by the Chief Executive Officer (the "CEO") acting on behalf of the Board of Directors. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where the Risk Committee approval of the specific credit application is necessary).

Credit review procedures

Specialists within the Audit, Review and Compliance Group undertake regular reviews of the portfolio. The focus is on testing the Risk Management Process including periodic review of retail assets portfolio quality and related provision. The specialists subject the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and the internal policies in order to assist in the early identification of accrual and potential performance problems, they validate the risk ratings of those clients and ensure approved credit policies, guidelines and operating procedures across the Company are implemented or highlight identified gaps in their reports.

Receivables classification

Impairment of retail receivables is calculated by applying a formulaic approach whereby a provision of 25% of net exposure is made when it is past due by more than 90 days, a provision of 50% of net exposure is made when is past due by more than 120 days and less than 180 days, and a provision of 100% of net exposure is made when it is past due by more than 180 days.

Impaired financial assets

Impaired financial assets for which the Company determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the agreement(s).

Past due but not impaired loans and other financial assets

Past due but not impaired loans and other financial assets are those loans and other financial assets where contractual profit or principal payments are past due, but the Company believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Company.

19. Risk management (continued)

Credit risk management (continued)

Allowances for impairment

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

The Company also complies with International Accounting Standards 39 (IAS 39) in accordance with which it assesses the need for any impairment losses on its loans portfolio by calculating the net present value using the original effective profit rate of the expected future cash flows for each loan or its recoverability based on either collateral value or the market value of the asset where such price is available. As required by Central Bank of the U.A.E. guidelines, the Company takes the higher of the loan loss provisions required under IAS 39 and Central Bank regulations.

Set out below is an analysis of certain financial assets by risk grade.

	Other financial assets measured at amortised cost		**Islamic financing products measured at amortised cost**	
	2013	2012	**2013**	2012
	AED	AED	**AED**	AED
Impaired				
Substandard	-	-	**813,193**	1,060,727
Doubtful	**24,311,616**	24,311,616	**1,943,488**	1,687,810
Loss	-	-	**43,227,050**	37,582,094
Gross amount	**24,311,616**	24,311,616	**45,983,731**	40,330,631
Specific allowance for impairment*	**(22,549,495)**	(22,549,495)	**(26,066,860)**	(33,340,377)
	1,762,121	1,762,121	**19,916,871**	6,990,254
Past due but not impaired				
Past due beyond 30 days	-	-	**11,351,520**	13,520,000
	-	-	**11,351,520**	13,520,000
Neither past due nor impaired				
Gross amount	**12,712,361**	17,337,397	**759,645,369**	478,981,171
Collective allowance for impairment	-	-	**(6,700,000)**	(6,700,000)
Carrying amount	**14,474,482**	19,099,518	**784,213,760**	492,791,425

* Specific allowance for impairment is calculated based on the net exposure amount i.e. outstanding loan balance less the net realizable value of the collateral held.

19. Risk management (continued)

Credit risk management (continued)

Allowances for impairment (continued)

Collateral against financial assets measured at amortised cost is generally held in the form of mortgage interests over vehicles and real estate properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a financial asset is individually assessed as impaired.

The Company holds collateral against its Islamic financing products, the fair value of which as at 31 December 2013 is AED 466.1 million (2012: AED 232.4 million).

Liquidity risk management

Liquidity Risk is the risk that the Company will be unable to meet a financial commitment to a customer, creditor, or investor when due.

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

When the Company is subject to a liquidity limit imposed by its local regulator, the Company is responsible for managing its overall liquidity within the regulatory limit in co-ordination with parent company's Central Treasury, who monitors compliance with local regulatory limits on a daily basis.

The following table summarizes the maturity profile of Company's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:

Notes to the financial statements
for the year ended 31 December 2013 (continued)

19. Risk management (continued)

Maturities of assets and liabilities – 31 December 2013

	Within 3 months AED	Over 3 to 6 months AED	Over 6 to 12 months AED	Over 1 to 5 years AED	Over 5 years AED	Total AED
Assets						
Cash and cash equivalents	80,010,197	-	-	-	-	80,010,197
Islamic financing products measured at amortised cost	32,794,620	32,352,801	64,253,665	346,059,684	308,752,990	784,213,760
Other financial assets measured at amortised cost	1,784,223	-	-	12,690,259	-	14,474,482
Other receivables and assets	183,976	17,449	-	-	-	201,425
Property and equipment	-	-	-	-	171,544,197	171,544,197
Total assets	114,773,016	32,370,250	64,253,665	358,749,943	480,297,187	1,050,444,061
Liabilities and shareholders' equity						
Due to a bank	444,915,590	-	-	-	-	444,915,590
Other payables	1,070,027	-	-	-	-	1,070,027
Shareholders' equity	-	-	-	-	604,458,444	604,458,444
Total liabilities and shareholders' equity	445,985,617	-	-	-	604,458,444	1,050,444,061

19. Risk management (continued)

Maturities of assets and liabilities – 31 December 2012

	Within 3 months AED	Over 3 to 6 months AED	Over 6 to 12 months AED	Over 1 to 5 Years AED	Over 5 years AED	Total AED
Assets						
Cash and cash equivalents	169,783,406	-	-	-	-	169,783,406
Other financial assets measured at FVTOCI	-	-	-	41,585,434	-	41,585,434
Islamic financing products measured at amortised cost	27,808,636	34,865,555	29,526,374	188,948,426	211,642,434	492,791,425
Other financial assets measured at amortised cost	1,784,223	-	-	17,315,295	-	19,099,518
Other receivables and assets	312,595	25,548	-	-	-	338,143
Property and equipment	-	-	-	-	200,914,190	200,914,190
Total assets	199,688,860	34,891,103	29,526,374	247,849,155	412,556,624	924,512,116
Liabilities and shareholders' equity						
Due to a bank	340,208,084	-	-	-	-	340,208,084
Other payables	3,651,794	-	-	-	-	3,651,794
Shareholders' equity	-	-	-	-	580,652,238	580,652,238
Total liabilities and shareholders' equity	343,859,878	-	-	-	580,652,238	924,512,116

19. Risk management (continued)

Market risk management

Market Risk is the risk that the Company's position will be adversely affected by changes in the levels or volatilities of market factors such as profit rates, currency rates and equity prices. Market risk arises from the Company's trading and non-trading activities.

Currency risk

The majority of the Company's assets and liabilities are denominated in Arab Emirates Dirhams (AED) and accordingly the Company's exposure to the currency risk is very limited. Some current accounts held at banks are denominated in U.S. Dollars to which AED is pegged and accordingly currency risk is limited on U.S. Dollar currency exposures.

Rate of return risk

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

The Company is not significantly exposed to risk in terms of the re-pricing of its assets and liabilities since it is primarily in accordance with Islamic Shari'a.

Fair value of financial instruments

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. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

19. Risk management (continued)

Market risk management (continued)

Fair value of financial instruments (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value (continued)

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value of the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis

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

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

	31 December 2013			
	Level 1 AED	**Level 2 AED**	**Level 3 AED**	**Total AED**
Financial assets measured at fair value				
Other financial assets measured at FVTOCI	-	-	-	-

	31 December 2012			
	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Financial assets measured at fair value				
Other financial assets measured at FVTOCI	41,585,434	-	-	41,585,434

There were no transfers between Level 1 and 2 during the years 2013 and 2012.

19. Risk management (continued)

Market risk management (continued)

Fair value of financial instruments (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2013:

	Reflected in other comprehensive income	
	Favourable change AED	**Unfavourable change AED**
Other financial assets measured at FVTOCI	-	-

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2012:

	Reflected in other comprehensive income	
	Favourable change AED	Unfavourable change AED
Other financial assets measured at FVTOCI	4,158,543	(4,158,543)

19. Risk management (continued)

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events.

Operational risk is inherent in the Company's business and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, employee misdeeds, or non-compliance to contract by vendors. These events could result in financial losses and other damage to the Company, including reputational harm.

To monitor and control operational risk, the Parent Company maintains a system of comprehensive policies, procedures and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in relation to the Company's financial strength, business characteristics, competitive environment and regulatory environment of the market in which the Company operates. Notwithstanding these control measures, the Company incurs operational losses.

The Parent Company has established an independent Operational Risk Function under the Risk Management Group; this Function has designed and implemented a detailed level Operational Risk Policy, which has since been approved by the Risk Management Committee.

The Parent Company's operational risk framework is supported by an operational risk software tool customised to meet the specific framework requirements of its entities. This helps integrate the individual components of the operational risk management framework into a unified, web-based tool and enhances the capture, reporting and analysis of operational risk data.

Operational risk monitoring

The Parent Company has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis is performed at business level and at each product and risk type level.

20. Calculation of Zakat

The ultimate responsibility to pay the Zakat rests with the shareholders of the Company.

21. Classification of financial assets and liabilities

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

	FVTOCI AED	Amortised cost AED	Carrying amount AED
Financial assets			
Cash and cash equivalents	-	80,010,197	80,010,197
Islamic financing products measured at amortised cost	-	784,213,760	784,213,760
Other financial assets measured at amortised cost	-	14,474,482	14,474,482
Other receivables and assets	-	183,976	183,976
Total	-	878,882,415	878,882,415
Financial liabilities			
Due to a bank	-	444,915,590	444,915,590
Other payables	-	1,070,027	1,070,027
Total		445,985,617	445,985,617

21. Classification of financial assets and liabilities (continued)

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

	FVTOCI AED	Amortised cost AED	Carrying amount AED
Financial assets			
Cash and cash equivalents	-	169,783,406	169,783,406
Other financial assets measured at FVTOCI	41,585,434	-	41,585,434
Islamic financing products measured at amortised cost	-	492,791,425	492,791,425
Other financial assets measured at amortised cost	-	19,099,518	19,099,518
Other receivables and assets	-	312,595	312,595
Total	41,585,434	681,986,944	723,572,378
Financial liabilities			
Due to a bank	-	340,208,084	340,208,084
Other payables	-	101,682	101,682
Total	-	340,309,766	340,309,766

22. Approval of financial statements

The financial statement for the year ended 31 December 2013 was approved by the Board of Directors and authorized for issue on 24 March 2014.