

**Bank of Sharjah P.S.C.**

**Reports and consolidated financial statements  
for the year ended 31 December 2012**

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## **Bank of Sharjah P.S.C.**

### **Board of Directors' report**

The Board has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2012.

#### **INCORPORATION AND REGISTERED OFFICE**

Bank of Sharjah P.S.C. (the "Bank") is a Public Shareholding Company with Limited Liability, incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced operations under a banking license issued from United Arab Emirates Central Bank dated 26 January 1974.

The Bank's registered office is located at Al Hosn Avenue, P.O. Box 1394, Sharjah, United Arab Emirates.

#### **PRINCIPAL ACTIVITY**

The Group's principal activities are commercial and investment banking.

#### **RESULTS**

The profit for the year ended 31 December 2012 amounted to AED 277 million (2011: AED 254 million). The total comprehensive income for the year ended 31 December 2012 amounted to AED 273 million (2011: AED 242 million) after taking into consideration gain on revaluation of financial assets measured at fair value through other comprehensive income amounting to AED 9,390 thousand (2011: gain of AED 594 thousand).

The detailed results are set out in the attached consolidated financial statements.

#### **DIRECTORS**

The Directors during the year were:

- |  |                                      |
|--|--------------------------------------|
| 1. Mr. Ahmed Abdulla Al Noman (Chairman)   | 7. Mr. Abdul Aziz Mubarak Al Hassawi |
| 2. Sheikh Mohamed Bin Saoud Al Qassimi     | 8. Mr. Saud Al Besharah              |
| 3. Sheikh Seif Bin Mohd Bin Butti Al Hamed | 9. Mr. Francois Dauge                |
| 4. H.E. Humeid Naser Al Owais              | 10. Mr. Jean-Jacques Santini         |
| 5. Mr. Abdul Rahman Bukhatir               | 11. Mr. Varouj Nerguizian            |
| 6. Mr. Abdul Aziz Hassan Al Midfa          |                                      |

On behalf of the Board

-----  
Mr. Ahmed Abdulla Al Noman  
Chairman  
Sharjah  
30 January 2013

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Bank of Sharjah P.S.C.  
Sharjah  
United Arab Emirates

### *Report on the consolidated financial statements*

We have audited the accompanying consolidated financial statements of Bank of Sharjah P.S.C. (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the consolidated financial statements*

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

### *Auditor's responsibility*

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

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

## **INDEPENDENT AUDITOR'S REPORT (continued)**

### *Opinion*

In our opinion, the consolidated financial statements present fairly in all material respects, the financial position of Bank of Sharjah P.S.C. and its subsidiaries as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Report on other legal and regulatory requirements*

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

Deloitte & Touche (M.E.)

Anis Sadek  
Registration Number 521  
30 January 2013

**Consolidated statement of financial position  
as at 31 December 2012**

	Notes	2012 AED'000	2011 AED'000
<b>ASSETS</b>			
Cash and balances with central banks	5	2,738,642	1,599,145
Deposits and balances due from banks	6	3,726,026	3,648,645
Loans and advances, net	7	12,444,339	12,039,325
Other financial assets measured at fair value	8	1,069,913	1,111,349
Other financial assets measured at amortized cost	8	746,434	736,597
Investment property	9	230,821	126,821
Goodwill and other intangibles	10	257,586	265,370
Other assets	11	1,347,998	1,176,385
Property and equipment	13	270,929	230,735
<b>Total assets</b>		<b>22,832,688</b>	<b>20,934,372</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Customers' deposits	14	16,476,374	14,940,143
Deposits and balances due to banks	15	445,512	465,651
Other liabilities	16	1,232,898	833,402
Syndicated loan	17	495,855	495,855
<b>Total liabilities</b>		<b>18,650,639</b>	<b>16,735,051</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital	18 (a)	2,100,000	2,100,000
Treasury shares	18 (a)	(327,792)	(230,602)
Statutory reserve	18 (b)	1,085,357	1,085,357
Contingency reserve	18 (c)	378,738	352,078
General reserve	18 (d)	62,565	30,390
Investment fair value reserve		106,134	(4,947)
Retained earnings		519,305	618,820
<b>Equity attributable to equity holders of the Parent</b>		<b>3,924,307</b>	<b>3,951,096</b>
Non-controlling interests		257,742	248,225
<b>Total equity</b>		<b>4,182,049</b>	<b>4,199,321</b>
<b>Total liabilities and equity</b>		<b>22,832,688</b>	<b>20,934,372</b>

.....  
**Mr. Ahmed Al Noman**  
**Chairman**

.....  
**Mr. Varouj Nerguizian**  
**Executive Director & General Manager**

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

**Consolidated income statement  
for the year ended 31 December 2012**

	Notes	2012 AED'000	2011 AED'000
Interest income	24	1,007,323	1,077,420
Interest expense	25	(486,898)	(549,869)
<b>Net interest income</b>		<b>520,425</b>	527,551
Net fee and commission income	26	110,592	113,367
Exchange profit		21,189	23,648
Investment income	27	12,455	9,540
Revaluation loss on investment properties	9	-	(22,844)
Other income		9,090	16,819
<b>Operating income</b>		<b>673,751</b>	668,081
Net impairment charge on financial assets	28	(179,166)	(211,880)
<b>Net operating income</b>		<b>494,585</b>	456,201
General and administrative expenses	29	(202,741)	(184,914)
Amortisation of intangible assets	10 (b)	(7,784)	(7,783)
<b>Profit before taxes</b>		<b>284,060</b>	263,504
Income tax expense - overseas		(6,947)	(9,706)
<b>Profit for the year</b>		<b>277,113</b>	253,798
<b>Attributable to:</b>			
Equity holders of the parent		266,605	228,653
Non-controlling interests		10,508	25,145
		<b>277,113</b>	253,798
<b>Basic and diluted earnings per share (AED)</b>	19	<b>0.13</b>	0.11

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

**Consolidated statement of comprehensive income  
for the year ended 31 December 2012**

	Notes	2012 AED'000	2011 AED'000
<b>Profit for the year</b>		<b>277,113</b>	253,798
<b>Other comprehensive income/(loss) items</b>			
Net changes in fair value of financial assets measure at fair value through other comprehensive income		<b>9,390</b>	594
Charitable donations	<b>20</b>	<b>(2,500)</b>	(2,500)
Directors' remuneration	<b>20</b>	<b>(10,585)</b>	(9,700)
<b>Total other comprehensive loss for the year</b>		<b>(3,695)</b>	(11,606)
<b>Total comprehensive income for the year</b>		<b>273,418</b>	242,192
<b>Attributed to:</b>			
Equity holders of the parent		<b>263,901</b>	217,614
Non-controlling interests		<b>9,517</b>	24,578
		<b>273,418</b>	242,192

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

**Consolidated statement of changes in equity  
for the year ended 31 December 2012**

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Contingency reserve AED'000	General reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Equity attributable to equity holders of the parent AED'000	Non- controlling interests AED'000	Total equity AED'000
<b>Balance at 1 January 2011</b>	2,100,000	(2,657)	1,085,357	329,213	30,390	(11,454)	640,436	4,171,285	223,647	4,394,932
Profit for the year	-	-	-	-	-	-	228,653	228,653	25,145	253,798
Other comprehensive loss	-	-	-	-	-	6,507	(17,546)	(11,039)	(567)	(11,606)
Total comprehensive income for the year	-	-	-	-	-	6,507	211,107	217,614	24,578	242,192
Shares held in treasury	-	(227,945)	-	-	-	-	-	(227,945)	-	(227,945)
Transfer to contingency reserve	-	-	-	22,865	-	-	(22,865)	-	-	-
Dividends paid (Note 20)	-	-	-	-	-	-	(209,858)	(209,858)	-	(209,858)
<b>Balance at 31 December 2011</b>	2,100,000	(230,602)	1,085,357	352,078	30,390	(4,947)	618,820	3,951,096	248,225	4,199,321
Profit for the year	-	-	-	-	-	-	266,605	266,605	10,508	277,113
Other comprehensive loss	-	-	-	-	-	9,373	(12,077)	(2,704)	(991)	(3,695)
Total comprehensive income for the year	-	-	-	-	-	9,373	254,528	263,901	9,517	273,418
Reclassification of realized loss on disposal of financial assets measured at FVTOCI	-	-	-	-	-	101,708	(101,708)	-	-	-
Shares held in treasury	-	(97,190)	-	-	-	-	-	(97,190)	-	(97,190)
Transfer to contingency reserve	-	-	-	26,660	-	-	(26,660)	-	-	-
Transfer to general reserve	-	-	-	-	32,175	-	(32,175)	-	-	-
Dividends paid (Note 20)	-	-	-	-	-	-	(193,500)	(193,500)	-	(193,500)
<b>Balance at 31 December 2012</b>	<b>2,100,000</b>	<b>(327,792)</b>	<b>1,085,357</b>	<b>378,738</b>	<b>62,565</b>	<b>106,134</b>	<b>519,305</b>	<b>3,924,307</b>	<b>257,742</b>	<b>4,182,049</b>

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

**Consolidated statement of cash flows  
for the year ended 31 December 2012**

	2012 AED'000	2011 AED'000
<b>Cash flows from operating activities</b>		
Profit for the year	277,113	253,798
<b>Adjustments for:</b>		
Depreciation of property and equipment and amortisation of intangible assets	22,104	18,510
Amortisation of premium/(discount) on debt instruments	5,622	(934)
Gain on sale of property and equipment	-	(99)
Gain on sale of investments	(3,283)	(977)
Fair value (gain)/loss on investments carried at FVTPL	(78)	29,527
Fair value loss on revaluation of investment property	-	22,844
Net impairment charge on financial assets	179,166	211,880
<b>Operating profit before changes in operating assets and liabilities</b>	<b>480,644</b>	534,549
(Increase)/ decrease in deposits and due from banks maturing after three months	(702,306)	539,515
Increase in statutory reserves with central banks	(27,688)	(34,540)
Increase in loans and advances	(584,180)	(144,364)
Increase in other assets	(275,613)	(202,182)
Increase in customers' deposits	1,536,231	562,816
Increase/(decrease) in other liabilities	399,496	(39,590)
Net movement on syndicated loan	-	(55,095)
<b>Cash generated from operating activities</b>	<b>826,584</b>	1,161,109
Payment of directors' remuneration and charitable donations	(13,085)	(9,700)
<b>Net cash generated from operating activities</b>	<b>813,499</b>	1,151,409
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(54,891)	(18,221)
Proceeds from sale of property and equipment	377	4,140
Purchase of investments	(168,367)	(429,404)
Proceeds from sale of investments	207,095	334,970
<b>Net cash used in investing activities</b>	<b>(15,786)</b>	(108,515)
<b>Cash flows from financing activities</b>		
Acquisition of treasury shares	(97,190)	(227,945)
Dividends paid	(193,500)	(209,858)
<b>Net cash used in financing activities</b>	<b>(290,690)</b>	(437,803)
<b>Net increase in cash and cash equivalents</b>	<b>507,023</b>	605,091
Cash and cash equivalents at the beginning of the year	3,866,516	3,261,425
<b>Cash and cash equivalents at the end of the year (Note 22)</b>	<b>4,373,539</b>	3,866,516
<b>Non-cash transactions:</b>		
Transfer to investment property	104,000	-

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012****1 General information**

Bank of Sharjah P.S.C. (the “Bank”), is a public shareholding company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

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

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

**2 Adoption of new and revised International Financial Reporting Standards (IFRSs)****2.1 New and revised IFRSs applied with no material effect on the financial statements**

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

- Amendments to IFRS 1 *Severe Hyperinflation*

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. The amendments are effective for annual periods beginning on or after 1 July 2011 with retrospective application.

- Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The amendments are effective for annual periods beginning on or after 1 January 2012 with retrospective application.

- Amendments to IFRS 7 *Disclosures Transfers of Financial Assets*

The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The amendments are effective for annual periods beginning on or after 1 July 2011. Entities need not provide the disclosures required by the amendments for any period presented that begins before the date of the initial application of the amendments.

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

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

**2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted:**

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

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
• Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities.	1 January 2013
• IFRS 10 <i>Consolidated Financial Statements</i> * 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 <i>Separate Financial Statements</i> * and IAS 28 <i>Investments in Associates and Joint Ventures</i> * have been amended for the issuance of IFRS 10.	1 January 2013
• IFRS 11 <i>Joint Arrangements</i> * 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 <i>Investments in Associates and Joint Ventures</i> has been amended for the issuance of IFRS 11.	1 January 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i> * combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard.	1 January 2013
• IFRS 13 <i>Fair Value Measurement</i> issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.	1 January 2013
• Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i> . The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.	1 July 2012
• Amendments to IAS 19 <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
• Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

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

**2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted: (continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<ul style="list-style-type: none"> <li>• Annual Improvements to IFRSs 2009 – 2011 Cycle</li> </ul> <p>The annual improvements include the amendments to five IFRSs which have been summarized below:</p> <ul style="list-style-type: none"> <li>▪ IFRS 1 <i>First Time Adoption of International Financial Reporting Standards – Repeated application of IFRS 1</i></li> <li>▪ IFRS 1 <i>First Time Adoption of International Financial Reporting Standards – Borrowing costs</i></li> <li>• IAS 1 <i>Presentation of Financial Statements – Clarification of the requirements for comparative information</i></li> <li>• IAS 16 <i>Property, Plant and Equipment – Classification of serving equipment</i></li> <li>• IAS 32 <i>Financial Instruments: Presentation – Tax effect of the distribution to the holders of equity instruments</i></li> <li>• IAS 34 <i>Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities</i></li> </ul>	1 January 2013
<ul style="list-style-type: none"> <li>• Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities</li> </ul>	1 January 2014

On 31 October 2012, the IASB published a final 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.

\*In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time. These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Management is reviewing the impact of these new standards, interpretations and amendments that will be adopted in the Group's financial statements for the period beginning 1 January 2013 or as and when they are applicable.

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****3 Summary of significant accounting policies****3.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Central Bank of the U.A.E. requirements as relates to the impairment of loans and advances measured at amortised cost and calculation of the capital adequacy ratio.

As required by the Securities and Commodities Authority of the U.A.E. (“SCA”) Notification No. 2624/2008 dated 12 October 2008, the Group’s exposure in cash and balances with central banks, deposits and due from banks and investment securities outside the U.A.E. have been presented under the respective notes to the consolidated financial statements.

**3.2 Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

**3.3 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income, and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group’s equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests’ share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

## Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

### 3 Summary of significant accounting policies (continued)

#### 3.3 Basis of consolidation (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

The Group's interest, held directly or indirectly, in subsidiaries is as follows:

Name of Subsidiary	Proportion of ownership interest		Year of incorporation	Country of incorporation	Principal activities
	2012	2011			
Emirates Lebanon Bank S.A.L	67.33%*	51%	1965	Lebanon	Financial institution
BOS Real Estate FZC	100%	100%	2009	U.A.E.	Real estate development activities
BOS Capital FZC	100%	100%	2009	U.A.E.	Investment of own financial resources
Polyco General Trading L.L.C.	100%	100%	2008	U.A.E.	General trading
Borealis Gulf FZC	100%	100%	2011	U.A.E.	Real estate development activities

\* During the year, the Group increased its shareholding in Emirates Lebanon Bank S.A.L. ("EL Bank") from 51% to 67.33% through subscribing in the issuance of shares (additional shares issued 37.5 million shares amounted to AED 91.825 million) and capital contribution of AED 183.65 million. The Bank was the only subscriber and contributor. The new subscribed shares have the right only to benefit from the profit of EL Bank from date of issuance and onwards.

#### 3.4 Cash and cash equivalents

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

#### 3.5 Due from banks

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****3 Summary of significant accounting policies (continued)****3.6 Financial assets**

All financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, net of transaction costs that are directly attributable to the acquisition of the financial asset, except for those financial assets measured subsequently at fair value through profit or loss, which are initially measured at fair value.

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

***Effective interest method***

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

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

***Classification of financial assets:***

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

***Financial assets measured at amortized cost:***

Debt instruments, including loans and advances are measured at amortized cost if both of the following conditions are met:

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.6 Financial assets (continued)**

*Financial assets measured at amortized cost: (continued)*

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

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

*Financial assets measured at FVTPL*

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

Subsequent to initial recognition, the Group is required to reclassify debt instruments from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria starts to be met and the instrument's contractual cash flows meet the amortized cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition is not permitted.

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

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the other income in the consolidated income statement. Fair value is determined in the manner described in note 35.

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

*Financial assets at FVTOCI*

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

A financial asset is held for trading if:

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****3 Summary of significant accounting policies (continued)****3.6 Financial assets (continued)***Financial assets at FVTOCI (continued)*

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

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

*Foreign exchange gains and losses*

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

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

**3.7 Fair values**

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

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

## Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

### 3 Summary of significant accounting policies (continued)

#### 3.8 Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Group's subsidiary or other associate transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

#### 3.9 Loans and advances

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

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

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

#### 3.10 Investment properties

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.11 Property and equipment**

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

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

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

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

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

**3.12 Intangible assets acquired separately**

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

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

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

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

## Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

### 3 Summary of significant accounting policies (continued)

#### 3.13 Impairment of tangible and intangibles

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

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

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

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

#### 3.14 Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****3 Summary of significant accounting policies (continued)****3.14 Impairment of financial assets (continued)**

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

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

***Individually assessed loans***

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

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

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

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

***Collectively assessed loans***

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

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

***Performing loans***

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

***Retail loans with common features and which are not individually significant***

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****3 Summary of significant accounting policies (continued)****3.14 Impairment of financial assets (continued)*****Renegotiated loans***

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

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

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

**3.15 Derecognition of financial assets**

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

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

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

**3.16 Collateral pending sale**

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

## Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

### 3 Summary of significant accounting policies (continued)

#### 3.17 Derivative financial instruments

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

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

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

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

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

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

#### *Fair value hedges*

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****3. Summary of significant accounting policies (continued)****3.17 Derivative financial instruments (continued)***Cash flow hedges*

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

*Derivatives that do not qualify for hedge accounting*

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

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

**3.18 Other financial liabilities**

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

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

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

## Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

### 3 Summary of significant accounting policies (continued)

#### 3.19 Customers' deposits and syndicated loan

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

#### 3.20 Business combinations

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

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

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

#### 3.21 Goodwill

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

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

#### 3.22 Employees' end-of-service benefits

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

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 7 of 1999.

## Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

### 3 Summary of significant accounting policies (continued)

#### 3.23 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

#### 3.24 Acceptances

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

#### 3.25 Financial guarantees

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

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

#### 3.26 Leasing

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

##### The Group as lessor

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

##### The Group as lessee

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****3 Summary of significant accounting policies (continued)****3.27 Recognition and de-recognition of financial instruments**

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

**3.28 Offsetting of financial assets and liabilities**

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

**3.29 Revenue and expense recognition**

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

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

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

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

**3.30 Foreign currencies**

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****3 Summary of significant accounting policies (continued)****3.30 Foreign currencies (continued)**

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

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****4 Critical accounting judgements and key sources of estimation of uncertainty**

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

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

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

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

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

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

**Loans and advances**

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

***Individually assessed loans***

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

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

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****4 Critical accounting judgements and key sources of estimation of uncertainty (continued)****i. Impairment of financial assets measured at amortised cost and loans and advances (continued)***Collectively assessed loans*

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

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

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

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

**ii. Classification of properties**

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

**iii. Fair value of investment properties and investment properties under development**

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

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

The continuing volatility in the global financial system and in the real estate industry has contributed to the significant reduction in transaction volumes in the UAE. Therefore, in arriving at their estimates of market values as at 31 December 2012, the valuers have used their market knowledge and professional judgement and have not relied solely on historic transactional comparables. In these circumstances, there is a greater degree of uncertainty than in a more active market in estimating market values of investment property.

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****4 Critical accounting judgements and key sources of estimation of uncertainty (continued)****iv. Useful lives of property and equipment and intangible assets**

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

**v. Impairment of properties under development**

Properties classified under capital work-in-progress are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements, and estimations over the useful lives of the assets. The cash flows are then discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

**4.2 Key sources of estimation uncertainty**

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

**Valuation of unquoted equity investments**

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

**Derivative financial instruments**

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

- a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management's judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure, and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**4 Critical accounting judgements and key sources of estimation of uncertainty (continued)**

**4.2 Key sources of estimation uncertainty (continued)**

**Valuation of investment property**

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

**5 Cash and balances with central banks**

(a) The analysis of the Group's cash and balances with central banks is as follows:

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Cash on hand	<b>69,723</b>	65,646
Statutory reserves	<b>937,192</b>	909,504
Current accounts	<b>166,760</b>	117,357
Certificates of deposits	<b>1,564,967</b>	506,638
	<b>2,738,642</b>	1,599,145

(b) The geographical analysis of the cash and balances with central banks is as follows:

Banks abroad	<b>1,362,013</b>	1,052,214
Banks in the U.A.E.	<b>1,376,629</b>	546,931
	<b>2,738,642</b>	1,599,145

The Group is required to maintain statutory reserves with various central banks on demand, time and other deposits as per the statutory requirements. The statutory reserves with the Central Banks are not available to finance the day to day operations of the Group. However, as per notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and US\$ reserve requirement limit. As at 31 December 2012, the statutory deposit with the Central Bank of the U.A.E. amounted to AED 378 million (31 December 2011: AED 356 million).

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**6 Deposits and balances due from banks**

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Demand	<b>716,841</b>	567,517
Time	<b>3,009,185</b>	3,081,128
	<u><b>3,726,026</b></u>	<u>3,648,645</u>

(b) The above represent deposits and balances due from:

Banks abroad	<b>841,688</b>	775,600
Banks in the U.A.E.	<b>2,884,338</b>	2,873,045
	<u><b>3,726,026</b></u>	<u>3,648,645</u>

**7 Loans and advances, net**

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Overdrafts	<b>6,408,389</b>	5,487,494
Commercial loans	<b>5,838,064</b>	6,119,116
Bills receivable	<b>427,880</b>	965,785
Other advances	<b>740,683</b>	256,191
	<u><b>13,415,016</b></u>	<u>12,828,586</u>
Less: Allowance for impairment	<b>(844,053)</b>	(683,260)
Less: Interest in suspense	<b>(126,624)</b>	(106,001)
	<u><b>12,444,339</b></u>	<u>12,039,325</u>

(b) The geographic analysis of the loans and advances of the Group is as follows:

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Loans and advances in the U.A.E.	<b>11,186,335</b>	10,518,154
Loans and advances outside the U.A.E.	<b>2,228,681</b>	2,310,432
	<u><b>13,415,016</b></u>	<u>12,828,586</u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**7 Loans and advances, net (continued)**

- (c) Loans and advances are stated net of allowance for impairment. The movement in the allowance during the year was as follows:

	<b>2012</b> <b>AED'000</b>	2011 AED'000
At 1 January	<b>683,260</b>	467,216
(Reversal)/additions through credit extension premium	<b>(18,497)</b>	9,601
Additions during the year (Note 28)	<b>182,223</b>	221,046
Write offs	<b>(332)</b>	(4,792)
Recoveries	<b>(2,601)</b>	(9,811)
At 31 December	<b>844,053</b>	683,260

Additions through credit extension premium represent the fees charged to clients upon sanctioning/granting any new facilities on the limit and allocated directly to collective impairment provision.

- (d) The movement in the interest in suspense account during the year was as follows:

	<b>2012</b> <b>AED'000</b>	2011 AED'000
At 1 January	<b>106,001</b>	94,087
Additions during the year	<b>22,710</b>	15,988
Write offs during the year	<b>(477)</b>	(2,943)
Recoveries	<b>(1,610)</b>	(1,131)
At 31 December	<b>126,624</b>	106,001

At 31 December 2012, the gross amount of loans and advances on which interest is not being accrued, or is suspended, amounted to AED 402 million (2011: AED 333 million). Unrecognised interest income for the year relating to such loans amounted to AED 23 million (2011: AED 16 million).

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**7 Loans and advances, net (continued)**

(e) The composition of the loans and advances portfolio by industry is as follows:

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
<b>Economic sector</b>		
Trading	<b>4,958,161</b>	4,803,640
Personal loans for commercial purposes	<b>933,906</b>	819,365
Services	<b>2,340,133</b>	2,326,085
Manufacturing	<b>1,733,939</b>	1,625,549
Construction	<b>849,209</b>	883,443
Government	<b>476,169</b>	133,112
Public utilities	<b>1,050,744</b>	1,105,995
Mining and quarrying	<b>509,438</b>	516,016
Transport and communication	<b>210,697</b>	185,605
Personal loans for individual purposes	<b>124,209</b>	132,855
Agriculture	<b>121,501</b>	109,454
Financial Institution	<b>103,920</b>	181,070
Other	<b>2,990</b>	6,397
	<b>13,415,016</b>	12,828,586
Less: Allowance for impairment	<b>(844,053)</b>	(683,260)
Less: Interest in suspense	<b>(126,624)</b>	(106,001)
	<b>12,444,339</b>	12,039,325

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**8 Other financial assets**

(a) The analysis of the Group's other financial assets as at 31 December 2012 is as follows:

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
<b>Other financial assets measured at fair value</b>		
<b>(i) Investments measured at FVTPL</b>		
Quoted equity	43,528	57,700
Unquoted debt instruments	930	3,145
	<u>44,458</u>	<u>60,845</u>
<b>(ii) Investments carried at FVTOCI</b>		
Quoted equity	72,902	115,362
Unquoted equity	952,553	935,142
	<u>1,025,455</u>	<u>1,050,504</u>
<b>Total other financial assets measured at fair value</b>	<u><b>1,069,913</b></u>	<u>1,111,349</u>
<b>Other financial assets measured at amortized cost</b>		
Debt securities	746,434	736,597
<b>Total other financial assets</b>	<u><b>1,816,347</b></u>	<u>1,847,946</u>

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

(b) The composition of the investment portfolio by geography is as follows:

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
United Arab Emirates	300,592	346,695
G.C.C. countries (other than U.A.E.)	4,774	7,288
Middle East and Africa (other than G.C.C. countries)	1,505,674	1,489,127
Europe	5,307	4,836
	<u>1,816,347</u>	<u>1,847,946</u>

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

(d) During the year ended 31 December 2012, dividends received from financial assets measured at FVTOCI amounting to AED 4 million (2011: AED 33 million) have been recognized as investment income in the consolidated income statement.

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**9 Investment property**

Details of investment property are as follows:

	<b>Plots of land in the U.A.E. AED'000</b>	<b>Commercial and residential units in the U.A.E. AED'000</b>	<b>Total AED'000</b>
<b>Cost</b>			
At 1 January 2011	78,496	71,169	149,665
Decrease in fair value during 2011	(16,697)	(6,147)	(22,844)
	<hr/>	<hr/>	<hr/>
Fair value at 31 December 2011	61,799	65,022	126,821
Additions during the year	-	104,000	104,000
	<hr/>	<hr/>	<hr/>
<b>Fair value at 31 December 2012</b>	<b>61,799</b>	<b>169,022</b>	<b>230,821</b>
	=====	=====	=====

Investment properties represent plots of land and properties developed under development held by the Group for undetermined future use. The fair value of investment properties is estimated periodically by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. As at 31 December 2012, the fair value has been arrived at on the basis of a valuation carried out at December 2012 by an independent qualified valuer. During 2011, the Group recognized in the consolidated income statement impairment losses of AED 23 million.

The current year additions represent a property with a carrying value of AED 104 million, transferred from assets acquired in settlement of debt to investment property.

**10 Goodwill and other intangibles**

(a) The analysis of the Group's goodwill and other intangibles is as follows:

	<b>2012 AED'000</b>	<b>2011 AED'000</b>
Goodwill	<b>184,733</b>	184,733
	<hr/>	<hr/>
<b>Other intangibles</b>		
Banking license	<b>18,365</b>	18,365
Legal corporate setup in Lebanon	<b>30,063</b>	34,357
Customer base	<b>21,855</b>	24,977
Branch network	<b>2,570</b>	2,938
	<hr/>	<hr/>
	<b>72,853</b>	80,637
	<hr/>	<hr/>
<b>Total</b>	<b>257,586</b>	265,370
	=====	=====

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**10 Goodwill and other intangibles (continued)**

(b) The movement on other intangible assets during the year was as follows:

<b>Other intangibles</b>	<b>Banking license AED'000</b>	<b>Legal corporate setup in Lebanon AED'000</b>	<b>Customer base AED'000</b>	<b>Branch network AED'000</b>	<b>Total AED'000</b>
Balance at 1 January 2011	18,365	38,651	28,099	3,305	88,420
Amortization in 2011	-	(4,294)	(3,122)	(367)	(7,783)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	18,365	34,357	24,977	2,938	80,637
Amortization in 2012	-	(4,294)	(3,122)	(368)	(7,784)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2012</b>	<b>18,365</b>	<b>30,063</b>	<b>21,855</b>	<b>2,570</b>	<b>72,853</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

In 2007, the Group acquired all the outstanding shares of Banque de la Bekaa SAL, a Lebanese bank. During 2008, the Group had recapitalised Banque de la Bekaa SAL by increasing its capital to US\$ 50 million plus a cash contribution of US\$ 100 million in order to reach a total initial equity of US\$ 150 million. Also the Group had changed the Bank's name to Emirates Lebanon Bank SAL ("EL Bank") which then acquired the assets and liabilities of BNPI in Lebanon. The other intangibles relate to the acquisition of BNPI in Lebanon in 2008.

**11 Other assets**

	<b>2012 AED'000</b>	2011 AED'000
Acceptances - contra	<b>987,308</b>	599,692
Assets acquired in settlement of debt*	<b>185,956</b>	303,695
Receivable from sale of investments	<b>91,825</b>	178,452
Clearing receivables	<b>29,372</b>	6,714
Interest receivable	<b>6,878</b>	2,737
Prepayments	<b>8,918</b>	13,208
Positive fair value of derivatives (Note 12)	<b>363</b>	132
Other	<b>37,378</b>	71,755
	<hr/>	<hr/>
	<b>1,347,998</b>	1,176,385
	<hr/> <hr/>	<hr/> <hr/>

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

Receivable from sale of investments arose on account of the sale of a 20% interest in a privately held company to develop and promote real estate and tourism activities in Tunisia, the sale proceeds are recoverable in four equal annual instalments of US\$ 25 million (AED 92 million).

\*During the year, the Group transferred a property with a carrying value of AED 104 million from assets acquired in settlement of debt to investment property.

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****12 Derivatives**

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

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

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

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**12 Derivatives (continued)**

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

	<b>Notional amounts by term to maturity</b>				
	<b>Positive fair value AED'000</b>	<b>Negative fair value AED'000</b>	<b>Notional amount AED'000</b>	<b>Within 3 months AED'000</b>	<b>3-12 months AED'000</b>
<b>Held as fair value hedges</b>					
<b>2012</b>					
Currency swaps	-	-	514,220	514,220	-
Forward foreign exchange contracts	363	-	305,095	170,430	134,665
<b>Total</b>	<b>363</b>	<b>-</b>	<b>819,315</b>	<b>684,650</b>	<b>134,665</b>
<b>2011</b>					
Currency swaps	-	-	550,950	550,950	-
Forward foreign exchange contracts	132	-	40,007	8,272	31,735
<b>Total</b>	<b>132</b>	<b>-</b>	<b>590,957</b>	<b>559,222</b>	<b>31,735</b>

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**13 Property and equipment**

	Land & buildings AED'000	Furniture and office equipment AED'000	Leasehold improvements installation, partitions and decoration AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
<b>Cost</b>						
At 1 January 2011	211,109	73,865	44,561	4,906	-	334,441
Additions	-	7,152	10,542	527	-	18,221
Disposals	-	(1,054)	(3,877)	(980)	-	(5,911)
At 31 December 2011	211,109	79,963	51,226	4,453	-	346,751
Additions	81	13,402	5,276	1,132	35,000	54,891
Disposals	-	(749)	(1,305)	(750)	-	(2,804)
<b>At 31 December 2012</b>	<b>211,190</b>	<b>92,616</b>	<b>55,197</b>	<b>4,835</b>	<b>35,000</b>	<b>398,838</b>
<b>Accumulated depreciation</b>						
At 1 January 2011	8,005	59,883	36,251	3,020	-	107,159
Charge for the year	1,379	4,722	3,812	814	-	10,727
Disposals	-	(1,001)	(36)	(833)	-	(1,870)
At 31 December 2011	9,384	63,604	40,027	3,001	-	116,016
Charge for the year	2,363	6,697	4,756	504	-	14,320
Disposals	-	(374)	(1,303)	(750)	-	(2,427)
<b>At 31 December 2012</b>	<b>11,747</b>	<b>69,927</b>	<b>43,480</b>	<b>2,755</b>	<b>-</b>	<b>127,909</b>
<b>Net book value:</b>						
<b>At 31 December 2012</b>	<b>199,443</b>	<b>22,689</b>	<b>11,717</b>	<b>2,080</b>	<b>35,000</b>	<b>270,929</b>
At 31 December 2011	201,725	16,359	11,199	1,452	-	230,735

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**14 Customers' deposits**

The analysis of customers' deposits is as follows:

	2012 AED'000	2011 AED'000
Current and other accounts	3,461,747	3,066,918
Saving accounts	1,511,482	1,462,118
Time deposits	11,503,145	10,411,107
	<u>16,476,374</u>	<u>14,940,143</u>
	=====	=====

**15 Deposits and balances due to banks**

The analysis of deposits and balances due to banks is as follows:

	2012 AED'000	2011 AED'000
Demand	218,514	126,659
Time	226,998	338,992
	<u>445,512</u>	<u>465,651</u>
	=====	=====
Due to banks represent due to:		
Banks in the U.A.E.	157,000	91,825
Banks outside the U.A.E.	288,512	373,826
	<u>445,512</u>	<u>465,651</u>
	=====	=====

**16 Other liabilities**

	2012 AED'000	2011 AED'000
Acceptances- contra	987,308	599,692
Provision for employees' end of service benefits	65,687	59,751
Interest payable	80,096	68,417
Unearned income	13,265	22,495
Managers' cheques	11,840	6,580
Accrued expenses	74,702	76,467
	<u>1,232,898</u>	<u>833,402</u>
	=====	=====

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**16 Other liabilities (continued)**

The movement in the provision for employees' end of service benefits is as follows:

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
At 1 January	<b>59,751</b>	53,442
Charged during the year	<b>6,307</b>	8,254
Payments during the year	<b>(371)</b>	(1,945)
	<hr/>	<hr/>
At 31 December	<b>65,687</b>	59,751
	<hr/> <hr/>	<hr/> <hr/>

**17 Syndicated loan**

On 26 July 2011, the Group signed a USD 135 million (AED 496 million) syndicated term loan facility. The purpose of the facility is to finance general corporate activities. The facility has a tenor of two years and is payable at maturity. The facility carries an interest rate of one year LIBOR plus a margin of 150 basis points which is payable on a quarterly basis.

On 29 July 2011, a USD 150 million (AED 551 million) syndicated term loan facility matured and was settled.

**18 Issued and paid up capital and reserves**

**(a) Issued and paid up capital and treasury shares**

	<b>2012</b>		2011	
	<b>Number of shares</b>	<b>AED'000</b>	Number of shares	AED'000
At 1 January	<b>2,100,000,000</b>	<b>2,100,000</b>	2,100,000,000	2,100,000
Shares held in treasury	<b>(165,000,000)</b>	<b>(327,792)</b>	(126,500,000)	(230,602)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	<b>1,935,000,000</b>	<b>1,772,208</b>	1,973,500,000	1,869,398
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

On 5 June 2010, the Board approved to buy back 10% of the Bank's outstanding shares with approval from the U.A.E. Central Bank. After obtaining the required regulatory approvals, the Group started acquiring its shares on the open market. As at 31 December 2012, the Group has acquired 165 million shares (31 December 2011: 127 million shares) amounting to AED 328 million (31 December 2011: AED 231 million). As such, the number of shares outstanding as at 31 December 2012 is 1.935 billion shares (31 December 2011: 1.973 billion shares). The market value of the treasury shares as at 31 December 2012 is AED 211 million (31 December 2011: AED 248 million). The allowed period by the U.A.E. Central Bank during which the Group can acquire its share expired during the year.

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**18 Issued and paid up capital and reserves (continued)**

**(b) Statutory reserve**

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

**(c) Contingency reserve**

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

**(d) General reserve**

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

**19 Earnings per share**

Earnings per share are computed by dividing the profit for the year by the average number of shares outstanding during the year as follows:

	<b>2012</b>	2011
<b>Basic and diluted earnings per share</b>		
Profit attributable to equity holders of the parent for the year (AED'000)	<b>266,605</b>	228,653
Charitable donations	<b>(2,500)</b>	(2,500)
Directors' remuneration	<b>(9,577)</b>	(8,622)
	<hr/>	<hr/>
Profit available to the equity holders of the parent	<b>254,528</b>	217,531
	<hr/>	<hr/>
Weighted average number of shares outstanding during the year (in thousand)	<b>1,936,604</b>	2,037,611
	<hr/>	<hr/>
<b>Basic and diluted earnings per share (AED)</b>	<b>0.13</b>	0.11
	<hr/>	<hr/>

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

**20 Dividends and Directors' remuneration**

At the Annual General Meeting of the shareholders held on 24 March 2012, the shareholders approved a cash dividend of AED 0.10 per outstanding share (2011: cash dividend of AED 0.10 per outstanding share).

The shareholders also approved Directors' remuneration of AED 7.5 million (2011: AED 7.5 million) and charity donations of AED 2.5 million (2011: AED 2.5 million). In addition to the above, an amount of AED 3.1 million was paid as Directors' remuneration to Emirates Lebanon Bank S.A.L., a subsidiary of the Group (2011: AED 2.2 million). ). Further, the shareholders approved to transfer AED 32.2 million to general reserve (2011: Nil).

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**20 Dividends (continued)**

In respect of the current year, the Board of Directors, in their meeting dated 30 January 2013, have proposed a cash dividend for distribution to the Shareholders of 10%.

**21 Commitments and contingent liabilities**

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Financial guarantees for loans	<b>1,618,864</b>	1,731,464
Other guarantees	<b>1,393,331</b>	1,477,125
Letters of credit	<b>1,055,267</b>	981,869
Capital commitments	<b>104,333</b>	104,333
	<hr/>	<hr/>
	<b>4,171,795</b>	4,294,791
Irrevocable commitments to extend credit	<b>1,542,500</b>	1,500,102
	<hr/>	<hr/>
	<b>5,714,295</b>	5,794,893
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

**22 Cash and cash equivalents**

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Cash and balances with central banks (Note 5)	<b>2,738,642</b>	1,599,145
Deposits and balances due from banks (Note 6)	<b>3,726,026</b>	3,648,645
Deposits and balances due to banks (Note 15)	<b>(445,512)</b>	(465,651)
	<hr/>	<hr/>
	<b>6,019,156</b>	4,782,139
Less: Deposits and balances due from banks - maturity more than three months	<b>(708,425)</b>	(6,119)
Less: Statutory reserves with central banks (Note 5)	<b>(937,192)</b>	(909,504)
	<hr/>	<hr/>
	<b>4,373,539</b>	3,866,516
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**23 Fiduciary assets**

The Group holds investments amounting to AED 1.10 billion (31 December 2011: AED 1.06 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

**24 Interest income**

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Loans and advances	<b>918,233</b>	984,595
Certificates of deposit and treasury bills with central banks	<b>81,534</b>	76,127
Placements with banks	<b>7,556</b>	16,698
	<b>1,007,323</b>	1,077,420

**25 Interest expense**

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Customer deposits	<b>457,468</b>	522,401
Bank deposits	<b>11,584</b>	16,649
Syndicated Loan	<b>11,234</b>	10,819
Interest on cash contribution capital due to minority shareholders at subsidiary	<b>6,612</b>	-
	<b>486,898</b>	549,869

**26 Net fee and commission income**

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Corporate banking credit related fees	<b>28,210</b>	35,534
Trade finance activities	<b>43,633</b>	32,667
Letters of guarantee	<b>34,238</b>	41,552
Other	<b>4,511</b>	3,614
	<b>110,592</b>	113,367

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**27 Investment income**

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Dividends	<b>4,229</b>	32,651
Revaluation gain/(loss) on investments	<b>3,324</b>	(28,477)
Other investment income	<b>4,902</b>	5,366
	<u><b>12,455</b></u>	<u>9,540</u>
	=====	=====

**28 Net impairment charge on financial assets**

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Collective impairment of loans and advances	<b>144,467</b>	215,000
Specific provision of loans and advances	<b>37,756</b>	6,046
	<u><b>182,223</b></u>	<u>221,046</u>
Total charge for the year (Note 7)	<b>182,223</b>	221,046
Recoveries during the year	<b>(3,057)</b>	(9,166)
	<u><b>179,166</b></u>	<u>211,880</u>
	=====	=====

**29 General and administrative expenses**

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Salaries and employees related expenses	<b>132,549</b>	122,986
Depreciation on property and equipment	<b>14,320</b>	10,727
Other	<b>55,872</b>	51,201
	<u><b>202,741</b></u>	<u>184,914</u>
	=====	=====

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**30 Related party transactions**

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

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

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

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Loans and advances	<b>2,098,878</b>	1,764,005
	=====	=====
Deposits	<b>332,259</b>	635,728
	=====	=====
Letters of credit, guarantee and acceptances	<b>1,171,841</b>	1,281,849
	=====	=====
Interest income	<b>130,544</b>	121,970
	=====	=====
Interest expense	<b>18,031</b>	35,031
	=====	=====
Key management compensation	<b>17,304</b>	15,250
	=====	=====

The Board of Directors has proposed a remuneration of AED 7.5 million (2011: AED 7.5 million) for the Board Members. This is subject to the approval of the shareholders at the Annual General Meeting.

As at 31 December 2012, entities related to one of the directors accounted for 56% (2011: 67%) of the total aforementioned loans and advances, 33% (2011: 65%) of the total aforementioned deposits, and 95% (2011: 94%) of the total aforementioned financial guarantees for loans.

**31 Segmental information**

**31.1 IFRS 8 Operating Segments**

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**31 Segmental information (continued)**

**31.2 Products and services from which reportable segments derive their revenues**

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

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

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

	<b>Commercial Banking AED'000</b>	<b>Investment Banking AED'000</b>	<b>Unallocated AED'000</b>	<b>Total AED'000</b>
<b>Revenue from external customers</b>				
- Net interest income	495,624	24,801	-	520,425
- Net fee and commission income	110,592	-	-	110,592
- Exchange profit	21,189	-	-	21,189
- Investment income	-	12,455	-	12,455
- Other income	9,090	-	-	9,090
<b>Operating income</b>	<b>636,495</b>	<b>37,256</b>	<b>-</b>	<b>673,751</b>
<b>Other material non-cash items</b>				
- Net impairment charge on financial assets	(179,166)	-	-	(179,166)
- Depreciation of property and equipment	-	-	(14,320)	(14,320)
- Administration and general expenses	(160,158)	(28,263)	-	(188,421)
- Amortization of intangible assets	(7,784)	-	-	(7,784)
- Income taxes	-	-	(6,947)	(6,947)
<b>Profit for the year after taxes</b>	<b>289,387</b>	<b>8,993</b>	<b>(21,267)</b>	<b>277,113</b>
<b>Segment assets</b>	<b>20,153,900</b>	<b>2,138,994</b>	<b>539,794</b>	<b>22,832,688</b>
<b>Segment liabilities</b>	<b>17,880,194</b>	<b>495,855</b>	<b>274,590</b>	<b>18,650,639</b>
<b>Additions to non-current assets</b>	<b>194</b>	<b>-</b>	<b>54,891</b>	<b>55,085</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**31 Segmental information (continued)**

**31.2 Products and services from which reportable segments derive their revenues (continued)**

The following table presents information regarding the Group's operating segments for the year ended 31 December 2011:

	<b>Commercial Banking AED'000</b>	<b>Investment Banking AED'000</b>	<b>Unallocated AED'000</b>	<b>Total AED'000</b>
<b>Revenue from external customers</b>				
- Net interest income	495,702	31,849	-	527,551
- Net fee and commission income	113,367	-	-	113,367
- Exchange profit	23,648	-	-	23,648
- Investment income	-	9,540	-	9,540
- Net loss on investment properties revaluation	-	(22,844)	-	(22,844)
- Other income	16,819	-	-	16,819
<b>Operating income</b>	<u>649,536</u>	<u>18,545</u>	<u>-</u>	<u>668,081</u>
<b>Other material non-cash items</b>				
- Net impairment charge on financial assets	(211,880)	-	-	(211,880)
- Depreciation of property and equipment	-	-	(10,727)	(10,727)
- Administration and general expenses	(147,608)	(26,579)	-	(174,187)
- Amortization of intangible assets	(7,783)	-	-	(7,783)
- Income taxes	-	-	(9,706)	(9,706)
<b>Profit for the year after taxes</b>	<u>282,265</u>	<u>(8,034)</u>	<u>(20,433)</u>	<u>253,798</u>
<b>Segment assets</b>	<u>18,152,177</u>	<u>2,153,219</u>	<u>628,976</u>	<u>20,934,372</u>
<b>Segment liabilities</b>	<u>16,005,485</u>	<u>495,855</u>	<u>233,711</u>	<u>16,735,051</u>
<b>Additions to non-current assets</b>	<u>303,695</u>	<u>-</u>	<u>18,221</u>	<u>321,916</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2011: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for resource allocation purpose. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**31 Segmental information (continued)**

**31.3 Geographical information**

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

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

	<b>Country of domicile</b>	<b>Foreign</b>	<b>Total</b>
	<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>
<b>2012</b>			
Operating income (from external customers)	<b>576,865</b>	<b>101,886</b>	<b>687,751</b>
Non-current assets	<b>825,162</b>	<b>294,863</b>	<b>1,120,025</b>
<b>2011</b>			
Operating income (from external customers)	532,714	135,367	668,081
Non-current assets	904,287	295,333	1,199,620

**31.4 Information about major customers**

In 2012, two customers accounted for more than 10% of the Group's revenue from external customers (2011: two customers accounted for more than 10% of the Group's revenue from external customers).

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**32 Classification of financial assets & liabilities**

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

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

- (b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2011:

	FVTPL AED'000	FVTOCI AED'000	Amortized cost AED'000	Total AED'000
<b>Financial assets:</b>				
Cash and balances with central banks	-	-	1,599,145	1,599,145
Deposits and balances due from banks	-	-	3,648,645	3,648,645
Loans and advances, net	-	-	12,039,325	12,039,325
Other financial assets measured at fair value	60,845	1,050,504	-	1,111,349
Other financial assets measured at amortized cost	-	-	736,597	736,597
Other assets	-	-	1,163,177	1,163,177
<b>Total</b>	<b>60,845</b>	<b>1,050,504</b>	<b>19,186,889</b>	<b>20,298,238</b>
	=====	=====	=====	=====
<b>Financial liabilities:</b>				
Customers' deposits	-	-	14,940,143	14,940,143
Deposits and balances due to banks	-	-	465,651	465,651
Other liabilities	-	-	751,157	751,157
Syndicated loan	-	-	495,855	495,855
<b>Total</b>	<b>-</b>	<b>-</b>	<b>16,652,806</b>	<b>16,652,806</b>
	=====	=====	=====	=====

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****33 Risk management**

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

**Credit risk management**

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

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

Policies relating to credit are reviewed and approved by the Group's Executive Committee. All credit lines are approved in accordance with the Group's credit policy set out in the Credit Policy Manual. Credit and Marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by economic and industry sectors.

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****33 Risk management (continued)****Credit risk management (continued)***Commercial/Institutional lending underwriting:*

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

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

*Credit review procedures and loan classification*

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

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

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

The Group also complies with IAS 39 in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan. As required by Central Bank of the U.A.E. guidelines, the Group takes the higher of the loan loss provisions required under IAS 39, IFRS 9 and Central Bank regulations.

*Executive Committee (EC)*

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**33 Risk management (continued)**

**Credit risk management (continued)**

*Executive Committee (EC) (continued)*

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

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

**Maximum exposure to credit risk**

	<b>Loans and advances to customers</b>	
	<b>2012</b>	<b>2011</b>
	<b>AED'000</b>	<b>AED'000</b>
<b>Carrying amount</b>		
<i>Individually impaired</i>		
Grade (H-I) - gross amount	<b>402,368</b>	333,281
<i>Neither past due nor impaired</i>		
Grade A	<b>1,787,440</b>	1,545,879
Grade B	<b>5,726,663</b>	5,611,458
Grade C	<b>3,204,096</b>	3,411,952
Grade D	<b>344,217</b>	1,329,606
Grade E	<b>46,233</b>	85,789
	<b>11,511,017</b>	12,317,965
<b>Past due but not impaired</b>	<b>1,903,999</b>	510,621
	<b>13,415,016</b>	12,828,586
<b>Allowance for impairment (including interest in suspense)</b>	<b>(970,677)</b>	(789,261)
<b>The risk classification of loans and advances</b>		
	<b>2012</b>	<b>2011</b>
	<b>AED'000</b>	<b>AED'000</b>
Performing loans	<b>11,600,096</b>	11,110,456
Other loans exceptionally monitored	<b>1,412,552</b>	1,384,849
Non-performing loans	<b>402,368</b>	333,281
	<b>13,415,016</b>	12,828,586
Less: Allowance for impairment	<b>(844,053)</b>	(683,260)
Less: Interest in suspense	<b>(126,624)</b>	(106,001)
	<b>12,444,339</b>	12,039,325

As at 31 December 2012, loans and advances measured at amortised cost include AED 1,904 million (2011: AED 511 million) of loans and advances that are past due but not impaired. Past due but not impaired includes loans and advances that are either fully secured or there is no concern over the credit worthiness of the counterparty as per management's judgment. Out of the balance of AED 1,904 million of past due loans AED 337 million (2011: AED 54 million) was the instalment amounts of principle or interest that is past due.

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)****33 Risk management (continued)****Credit risk management (continued)****Impaired loans and securities**

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

**Allowances for impairment**

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

**Write-off policy**

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

The Group holds collateral against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Group accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. Management has estimated the fair value of collateral to be AED 10.4 billion (2011: AED 10.5 billion).

No collateral are held against investment securities.

**Liquidity risk management**

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**33 Risk management (continued)**

**Liquidity risk management (continued)**

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**33 Risk management (continued)**

**Liquidity risk management (continued)**

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

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
<b>Assets</b>					
Cash and balances with central banks	2,012,624	73,129	630,531	22,358	2,738,642
Deposits and balances due from banks	3,541,285	184,741	-	-	3,726,026
Loans and advances, net	7,194,141	740,539	4,506,895	2,764	12,444,339
Other financial assets measured at fair value	117,965	-	-	951,948	1,069,913
Other financial assets measured at amortized cost	10,650	221,881	501,207	12,696	746,434
Investment properties	-	-	-	230,821	230,821
Goodwill and other intangibles	-	-	-	257,586	257,586
Other assets	946,168	39,555	1,608	360,667	1,347,998
Property and equipment	-	-	-	270,929	270,929
<b>Total assets</b>	<b>13,851,833</b>	<b>1,259,845</b>	<b>5,640,241</b>	<b>2,109,769</b>	<b>22,832,688</b>
<b>Liabilities and equity</b>					
Customers' deposits	11,431,280	3,810,286	467,266	767,542	16,476,374
Deposits and balances due to banks	91,264	354,248	-	-	445,512
Other liabilities	903,974	9,866	43,170	275,888	1,232,898
Syndicated loan	-	495,855	-	-	495,855
Equity	-	-	-	4,182,049	4,182,049
<b>Total liabilities and equity</b>	<b>12,426,518</b>	<b>4,670,255</b>	<b>510,436</b>	<b>5,225,479</b>	<b>22,832,688</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**33 Risk management (continued)**

**Liquidity risk management (continued)**

The maturity profile of the assets and liabilities at 31 December 2011 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
<b>Assets</b>					
Cash and balances with central banks	883,499	102,844	581,792	31,010	1,599,145
Deposits and balances due from banks	3,648,645	-	-	-	3,648,645
Loans and advances, net	6,487,859	1,391,057	4,096,462	63,947	12,039,325
Other financial assets measured at fair value	176,206	-	-	935,143	1,111,349
Other financial assets measured at amortized cost	78,974	72,002	585,621	-	736,597
Investment properties	-	-	-	126,821	126,821
Goodwill and other intangibles	-	-	-	265,370	265,370
Other assets	706,887	156,935	-	312,563	1,176,385
Property and equipment	-	-	-	230,735	230,735
<b>Total assets</b>	<u>11,982,070</u>	<u>1,722,838</u>	<u>5,263,875</u>	<u>1,965,589</u>	<u>20,934,372</u>
<b>Liabilities and equity</b>					
Customers' deposits	10,386,272	2,906,018	638,649	1,009,204	14,940,143
Deposits and balances due to banks	164,957	300,694	-	-	465,651
Other liabilities	694,716	-	34,656	104,030	833,402
Syndicated loan	-	-	495,855	-	495,855
Equity	-	-	-	4,199,321	4,199,321
<b>Total liabilities and equity</b>	<u>11,245,945</u>	<u>3,206,712</u>	<u>1,169,160</u>	<u>5,312,555</u>	<u>20,934,372</u>

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**33 Risk management (continued)**

**Market risk management**

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

**a) Market risk - trading book**

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

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

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

The Group's trading portfolio is well-diversified in terms of economic activity with a beta of -0.04 (2011: 2.15) to the Global stock markets. The effect on the Group's equity investments held in the trading book due to a reasonable possible change in U.A.E. equity indices, with all other variables held constant is as follows:

<b>Market indices</b>	<b>31 December 2012</b>		<b>31 December 2011</b>	
	<b>Change in equity price %</b>	<b>Effect on income AED'000</b>	<b>Change in equity price %</b>	<b>Effect on income AED'000</b>
<b>Global stock markets</b>	<b>+ 1 %</b>	<b>(17)</b>	<b>+1%</b>	<b>1,241</b>

**b) Market risk - non-trading or banking book**

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

**i) Interest rate risk**

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**33 Risk management (continued)**

i) Interest rate risk (continued)

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

	Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
<b>Assets</b>						
Cash and balances with central banks	2.36%	1,732,908	36,399	-	969,335	2,738,642
Deposits and balances due from banks	0.20%	2,847,920	184,741	-	693,365	3,726,026
Loans and advances, net	6.89%	12,038,987	103,850	3,710	297,792	12,444,339
Other financial assets - Debt securities	5.48%	930	-	-	746,434	747,364
Other financial assets - Equity instruments	-	-	-	-	1,068,983	1,068,983
Investment properties	-	-	-	-	230,821	230,821
Goodwill and other intangibles	-	-	-	-	257,586	257,586
Other assets	6.00%	91,825	-	-	1,256,173	1,347,998
Property and equipment, net	-	-	-	-	270,929	270,929
<b>Total assets</b>		<b>16,712,569</b>	<b>324,990</b>	<b>3,710</b>	<b>5,791,418</b>	<b>22,832,688</b>
<b>Liabilities and equity</b>						
Customers' deposits	2.76%	9,693,118	3,824,239	-	2,959,017	16,476,374
Deposits and balances due to banks	0.91%	215,832	202,015	-	27,665	445,512
Other liabilities	-	-	-	-	1,232,898	1,232,898
Syndicated loan	1.81%	495,855	-	-	-	495,855
Equity	-	-	-	-	4,182,049	4,182,049
<b>Total liabilities and equity</b>		<b>10,404,805</b>	<b>4,026,254</b>	<b>-</b>	<b>8,401,629</b>	<b>22,832,688</b>
On statement of financial position gap		<b>6,307,765</b>	<b>(3,701,264)</b>	<b>3,710</b>	<b>(2,610,211)</b>	
<b>Cumulative interest rate sensitivity gap</b>		<b>6,307,765</b>	<b>2,606,501</b>	<b>2,610,211</b>	<b>-</b>	

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**33 Risk management (continued)**

i) Interest rate risk (continued)

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2011 was as follows:

	Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
<b>Assets</b>						
Cash and balances with central banks	3.27%	702,313	-	-	896,832	1,599,145
Deposits and balances due from banks	0.49%	3,304,956	-	-	343,689	3,648,645
Loans and advances, net	7.24%	11,423,185	90,472	-	525,668	12,039,325
Other financial assets - Debt securities	5.72%	3,145	-	-	736,597	739,742
Other financial assets - Equity instruments	-	-	-	-	1,108,204	1,108,204
Investment properties	-	-	-	-	126,821	126,821
Goodwill and other intangibles	-	-	-	-	265,370	265,370
Other assets	6.00%	91,824	-	86,627	997,934	1,176,385
Property and equipment, net	-	-	-	-	230,735	230,735
<b>Total assets</b>		<b>15,525,423</b>	<b>90,472</b>	<b>86,627</b>	<b>5,231,850</b>	<b>20,934,372</b>
<b>Liabilities and equity</b>						
Customers' deposits	3.09%	8,706,850	3,689,951	-	2,543,342	14,940,143
Deposits and balances due to banks	0.58%	109,054	193,047	-	163,550	465,651
Other liabilities	-	-	-	-	833,402	833,402
Syndicated loan	1.94%	495,855	-	-	-	495,855
Equity	-	-	-	-	4,199,321	4,199,321
<b>Total liabilities and equity</b>		<b>9,311,759</b>	<b>3,882,998</b>	<b>-</b>	<b>7,739,615</b>	<b>20,934,372</b>
On statement of financial position gap		6,213,664	(3,792,526)	86,627	(2,507,765)	-
<b>Cumulative interest rate sensitivity gap</b>		<b>6,213,664</b>	<b>2,421,138</b>	<b>2,507,765</b>	<b>-</b>	<b>-</b>

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**33 Risk management (continued)**

i) Interest rate risk (continued)

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

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Group's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2012, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at 31 December 2012 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.

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

2011 Currency	Increase in basis	Sensitivity of interest income	Sensitivity of Equity				Total 2011
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
AED	+25	9,696	-	-	-	-	9,696
USD	+25	(2,714)	-	-	-	-	(2,714)
Others	+25	(311)	-	-	-	-	(311)

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**33 Risk management (continued)**

ii) Currency risk

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

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group takes on foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As at 31 December 2012, the Group's net currency position was not material, and all the positions were within limits approved by the Executive Committee. The table below shows the foreign currencies to which the Group has a significant exposure to:

	<b>2012</b> <b>AED'000</b> <b>equivalent</b> <b>long (short)</b>	2011 AED'000 equivalent long (short)
US Dollar	<b>(130,393)</b>	(286,863)
Euro	<b>(2,961)</b>	(3,653)

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

(AED'000)			
Currency exposure as at 31 December 2012	Change in currency rate in %	Change on net profit	Change on Equity
USD	+5%	<b>(6,520)</b>	-
EUR	+5%	<b>(148)</b>	-
(AED'000)			
Currency exposure as at 31 December 2011	Change in currency rate in %	Change on net profit	Change on Equity
USD	+5%	(14,383)	-
EUR	+5%	(183)	-

## Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

### 33 Risk management (continued)

#### iii) Equity price risk

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

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

Market indices	31 December 2012		31 December 2011	
	Change in equity price %	Effect on equity AED'000	Change in equity price %	Effect on equity AED'000
Global stock markets	+ 1 %	(29)	+1%	2,480

#### Operational risk

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

### 34 Capital adequacy and capital management

#### Capital management process

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**34 Capital adequacy and capital management (continued)**

**Capital management process (continued)**

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

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

	<b>Basel II</b>	
	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
<b>Tier 1 capital</b>		
Share capital	<b>2,100,000</b>	2,100,000
Shares held in treasury	<b>(327,792)</b>	(230,602)
Statutory reserve	<b>1,085,357</b>	1,085,357
Contingency and general reserves	<b>441,303</b>	382,468
Retained earnings	<b>519,305</b>	618,820
Non-controlling interest in equity of subsidiaries	<b>257,742</b>	248,225
Goodwill and other intangibles	<b>(257,586)</b>	(265,370)
	<b>3,818,329</b>	3,938,898
<b>Tier 2 capital</b>		
Collective impairment allowance on loans and advances	<b>222,161</b>	224,887
Cumulative change in fair value	<b>47,760</b>	(4,947)
	<b>269,921</b>	219,940
<b>Total regulatory capital</b>	<b>4,088,250</b>	4,158,838
<b>Risk-weighted assets:</b>		
Credit risk	<b>16,841,145</b>	17,019,190
Market risk	<b>97,399</b>	94,797
Operational risk	<b>834,356</b>	876,971
<b>Total risk-weighted assets</b>	<b>17,772,900</b>	17,990,958
<b>Capital adequacy ratio</b>	<b>23.00%</b>	23.12%

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**35 Fair value of financial instruments**

Investments held at fair value through profit and loss

Investments held for trading represent investment securities that present the Group with opportunity for returns through dividend income and trading gains. The fair values of these investments are based on quoted prices at close of business as of 31 December 2012.

Unquoted investments held at fair value through other comprehensive income

The consolidated financial statements include holdings in unquoted securities amounting to AED 952 million (2011: AED 935 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

For determining the fair value of those investments that are valued using the discounted cash flow analysis, a long term earnings growth factor of 2% and risk adjusted discount or capitalisation rates in the range of 14% to 20% were used. If the long term earnings growth factor were 100 basis points higher/lower while all other variable were held constant, then the carrying amount of the shares would increase/decrease by AED2.9 million (2011: AED 2.9 million). Similarly, if the risk adjusted discount or capitalisation rates were 100 basis points higher/lower while all other variables were held constant, then the fair value of the securities would decrease/increase by AED 6.2 million (2011: AED 6.4 million).

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/lower while all other variables were held constant, then the fair value of the securities would increase/decrease by AED 48 million (2011: AED 34 million).

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

**Fair value of financial assets carried at amortized cost**

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

	2012		2011	
	Carrying amount AED'000	Fair Value AED'000	Carrying amount AED'000	Fair value AED'000
<b><i>Financial assets</i></b>				
- Other financial assets measured at amortized cost	<b>746,434</b>	<b>751,533</b>	736,597	742,216
	=====	=====	=====	=====

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**35 Fair value of financial instruments (continued)**

**Fair value of financial assets carried at amortized cost (continued)**

Fair value measurements recognised in the consolidated statement of financial position

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

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<b>At 31 December 2012</b>				
<i>Other financial assets measured at fair value</i>				
Investment measured at FVTPL				
-Quoted equity	43,528	-	-	43,528
-Unquoted debt instrument	-	930	-	930
<i>Investments carried at FVTOCI</i>				
Quoted equity	72,902	-	-	72,902
Unquoted equity	-	-	952,553	952,553
<b>Total</b>	<b>116,430</b>	<b>930</b>	<b>952,553</b>	<b>1,069,913</b>
<i>Other assets</i>				
Positive fair value of derivatives	-	363	-	-
At 31 December 2011				
<i>Other financial assets measured at fair value</i>				
Investment measured at FVTPL				
-Quoted equity	57,700	-	-	57,700
-Unquoted debt instrument	-	3,145	-	3,145
<i>Investments carried at FVTOCI</i>				
Quoted equity	115,362	-	-	115,362
Unquoted equity	-	-	935,142	935,142
<b>Total</b>	<b>173,062</b>	<b>3,145</b>	<b>935,142</b>	<b>1,111,349</b>
<i>Other assets</i>				
Positive fair value of derivatives	-	132	-	132

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2012 (continued)**

**35 Fair value of financial instruments (continued)**

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

	<b>2012</b>	2011
	<b>AED'000</b>	AED'000
Opening balance	<b>935,142</b>	650,371
Additions	<b>12,679</b>	238,242
Gains recognised in other comprehensive income	<b>4,732</b>	46,529
Closing balance	<b>952,553</b>	935,142
	=====	=====

**36 Approval of the consolidated financial statements**

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 30 January 2013.