Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

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Year ended 31 December 2012

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Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2012

BOARD OF DIRECTORS' REPORT
Year ended 31 December 2012

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively known as the "the Group") for the year ended 31 December 2012.

Incorporation and registered office
The Bank was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

Principal activity
The activities of the Bank are conducted in accordance with Islamic Shari'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

Basis of preparation of consolidated financial statements
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended).

Financial commentary
The Group net profit reached a record AED 1,201.2 million (2011: AED 1,155.1 million) for 2012 up 4.0%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors and sukuk holders) for 2012 was AED 3,565.6 million (2011: AED 3,425.8 million) increased by 4.1%.
- Group operating profit ("margin") for 2012 increased by 1.1% to reach at AED 2,003.6 million (2011: AED 1,976.2 million).
- Total provisions for impairments for 2012 were AED 802.3 million (2011: AED 821.1 million).
- Group net profit for 2012 reached a record AED 1,201.2 million (2011: AED 1,155.1 million) up 4.0%.
- Group earnings per share increased to AED 0.457 compared to AED 0.438 in 2011.
- Total assets as of 31 December 2012 were AED 85.7 billion (2011: AED 74.3 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2012 was AED 51.2 billion (2011: AED 48.8 billion).
- Customer deposits as of 31 December 2012 were AED 61.3 billion (2011: AED 55.2 billion).

Dividends and proposed appropriations
The Board of Directors have recommended a cash dividend of 25.40% to be paid out of 2012 profit and the following appropriations from retained earnings:

	AED '000
• Transfer to legal reserves	(785)
• Transfer to general reserves	(153,109)
• Transfer to credit risk reserve	(400,000)
• Proposed dividends to charity for the year ended 31 December 2012	(4,450)
• Proposed cash dividend to shareholders for the year ended 31 December 2012	(600,616)
• Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(120,000)
• Issuance cost of Tier 1 sukuk issued during the year	(37,281)
• Directors' fees paid for the year ended 31 December 2011	(4,200)

BOARD OF DIRECTORS' REPORT continued
Year ended 31 December 2012

Board of Directors
The directors during the year were as follows:

1.	H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
2.	Khaled Abdulla Neamat Khouri	Vice Chairman
3.	Khamis Mohamed Buharoon	Board Member
4.	Juma Khamis Mugheer Al Khaili	Board Member
5.	Ragheed Najeeb Shanti	Board Member
6.	Dr. Sami Ali Al Amri	Board Member
7.	Abdulla Bin Aqeeda Al Muhairi	Board Member

Auditors
Ernst & Young were appointed as external auditors of the Group for the year ended 31 December 2012. Ernst & Young are eligible for reappointment for 2013 and have expressed their willingness to continue in office.

On behalf of the Board of Directors
Khaled Abdulla Neamat Khouri
Vice Chairman

07 February 2013
Abu Dhabi

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

Ernst & Young

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC

Report on the Consolidated Financial Statements

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

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group 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

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

Ernst & Young

Signed by
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

7 February 2013
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2012

	Notes	2012 AED '000	2011 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		**98,510**	118,236
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	**3,619,457**	3,609,400
Investment income	6	**198,207**	86,056
Share of results of associates and joint venture		**12,247**	17,339
Fees and commission income, net	7	**395,608**	429,339
Foreign exchange income		**36,760**	30,083
Income from investment properties	8	**7,455**	7,743
Income from development properties	9	**1,140**	4,178
Other income		**8,945**	9,926
		4,378,329	4,312,300
OPERATING EXPENSES			
Employees' costs	10	**(941,102)**	(895,735)
General and administrative expenses	11	**(504,635)**	(462,529)
Depreciation	22 & 25	**(116,323)**	(91,390)
Provision for impairment, net	12	**(802,324)**	(821,070)
		(2,364,384)	(2,270,724)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**2,013,945**	2,041,576
Distribution to depositors and sukuk holders	13	**(812,713)**	(886,485)
PROFIT FOR THE YEAR		**1,201,232**	1,155,091
Attributable to:			
Equity holders of the Bank		**1,199,931**	1,154,969
Non-controlling interest		**1,301**	122
		1,201,232	1,155,091
Basic and diluted earnings per share attributable to ordinary shares (AED)	14	**0.457**	0.438

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2012

	Notes	***2012 AED '000***	*2011 AED '000*
PROFIT FOR THE YEAR		**1,201,232**	1,155,091
Other comprehensive loss			
Net gain (loss) on valuation of investments carried at fair value through other comprehensive income	34	**35,466**	(86,616)
Surplus on revaluation of land	25	**-**	13,761
Directors' remuneration paid	41	**(4,200)**	(4,200)
Exchange differences arising on translation of foreign operations	34	**(83,120)**	(1,321)
(Loss) gain on hedge of foreign operations	34	**(1,880)**	1,321
Exchange difference recycled on disposal of investment in associate	34	**(1,915)**	-
Fair value loss on cash flow hedges	34	**(7,943)**	(10,936)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(63,592)**	(87,991)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,137,640**	1,067,100
Attributable to:			
Equity holders of the Bank		**1,136,339**	1,066,978
Non-controlling interest		**1,301**	122
		1,137,640	1,067,100

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2012

	Notes	*2012* *AED '000*	*2011* *AED '000*
ASSETS			
Cash and balances with central banks	15	**11,286,903**	11,207,145
Balances and wakala deposits with Islamic banks and other financial institutions	16	**4,121,480**	2,515,371
Murabaha and mudaraba with financial institutions	17	**9,754,937**	5,216,501
Murabaha and other Islamic financing	18	**23,951,777**	23,365,559
Ijara financing	19	**27,244,938**	25,465,782
Investments	20	**4,255,148**	1,652,605
Investment in associates and joint venture	21	**766,025**	851,503
Investment properties	22	**306,174**	155,240
Development properties	23	**837,381**	966,747
Other assets	24	**1,917,943**	1,964,650
Property and equipment	25	**1,221,849**	973,963
TOTAL ASSETS		**85,664,555**	74,335,066
LIABILITIES			
Due to financial institutions	26	**3,133,893**	1,931,426
Depositors' accounts	27	**61,326,147**	55,171,783
Other liabilities	28	**1,874,323**	1,862,757
Tier 2 wakala capital	29	**2,207,408**	2,207,408
Sukuk financing instruments	30	**4,470,902**	4,590,625
Total liabilities		**73,012,673**	65,763,999
EQUITY			
Share capital	31	**2,364,706**	2,364,706
Legal reserve	32	**1,756,679**	1,755,894
General reserve	32	**739,030**	585,921
Credit risk reserve	32	**400,000**	-
Retained earnings		**1,189,511**	1,311,406
Proposed dividend	33	**600,616**	577,546
Proposed dividend to charity		**4,450**	1,028
Other reserves	34	**(86,050)**	(28,043)
Tier 1 sukuk	35	**5,629,165**	2,000,000
Equity attributable to the equity holders of the Bank		**12,598,107**	8,568,458
Non-controlling interest	36	**53,775**	2,609
Total equity		**12,651,882**	8,571,067
TOTAL LIABILITIES AND EQUITY		**85,664,555**	74,335,066
CONTINGENT LIABILITIES AND COMMITMENTS	37	**13,272,351**	14,378,921

Khaled Abdulla Neamat Khouri
Vice Chairman

Tirad M. Mahmoud
Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to the equity holders of the Bank											
	Notes	*Share capital AED '000*	*Legal reserve AED '000*	*General reserve AED '000*	*Credit risk reserve AED '000*	*Retained earnings AED '000*	*Proposed dividends AED '000*	*Proposed dividends to charity AED '000*	*Other reserves AED '000*	*Tier 1 sukuk AED '000*	*Total AED '000*	*Non-controlling interest AED '000*	*Total equity AED '000*
Balance at 1 January 2011		2,364,706	1,754,899	443,182	-	1,022,317	511,783	6,816	36,376	2,000,000	8,140,079	3,075	8,143,154
Profit for the year		-	-	-	-	1,154,969	-	-	-	-	1,154,969	122	1,155,091
Other comprehensive loss		-	-	-	-	(4,200)	-	-	(83,791)	-	(87,991)	-	(87,991)
Loss on disposal of investments carried at fair value through other comprehensive income	34	-	-	-	-	(19,372)	-	-	19,372	-	-	-	-
Profit paid on Tier 1 sukuk	35	-	-	-	-	(120,000)	-	-	-	-	(120,000)	-	(120,000)
Dividends paid		-	-	-	-	-	(511,783)	-	-	-	(511,783)	(588)	(512,371)
Dividends paid to charity		-	-	-	-	-	-	(6,816)	-	-	(6,816)	-	(6,816)
Transfer to reserves	32	-	995	142,739	-	(143,734)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(1,028)	-	1,028	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	-	(577,546)	577,546	-	-	-	-	-	-
Balance at 1 January 2012		**2,364,706**	**1,755,894**	**585,921**	**-**	**1,311,406**	**577,546**	**1,028**	**(28,043)**	**2,000,000**	**8,568,458**	**2,609**	**8,571,067**
Profit for the year		-	-	-	-	1,199,931	-	-	-	-	1,199,931	1,301	1,201,232
Other comprehensive loss		-	-	-	-	(4,200)	-	-	(59,392)	-	(63,592)	-	(63,592)
Loss on disposal of investments carried at fair value through other comprehensive income	34	-	-	-	-	(1,385)	-	-	1,385	-	-	-	-
Tier 1 sukuk issued	35	-	-	-	-	-	-	-	-	3,629,165	3,629,165	-	3,629,165
Tier 1 sukuk issuance cost	35	-	-	-	-	(37,281)	-	-	-	-	(37,281)	-	(37,281)
Profit paid on Tier 1 sukuk	35	-	-	-	-	(120,000)	-	-	-	-	(120,000)	-	(120,000)
Dividends paid	33	-	-	-	-	-	(577,546)	-	-	-	(577,546)	-	(577,546)
Dividends paid to charity		-	-	-	-	-	-	(1,028)	-	-	(1,028)	-	(1,028)
Transfer to reserves	32	-	785	153,109	-	(153,894)	-	-	-	-	-	-	-
Transfer to credit risk reserve	32	-	-	-	400,000	(400,000)	-	-	-	-	-	-	-
Non-controlling interest arising on a business combination	45	-	-	-	-	-	-	-	-	-	-	49,865	49,865
Proposed cash dividend to charity		-	-	-	-	(4,450)	-	4,450	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	-	(600,616)	600,616	-	-	-	-	-	-
Balance at 31 December 2012		**2,364,706**	**1,756,679**	**739,030**	**400,000**	**1,189,511**	**600,616**	**4,450**	**(86,050)**	**5,629,165**	**12,598,107**	**53,775**	**12,651,882**

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2012

	Notes	2012 AED '000	2011 AED '000
OPERATING ACTIVITIES			
Profit for the year		**1,201,232**	1,155,091
Adjustments for:			
Depreciation on investment properties	22	**9,278**	5,793
Depreciation on property and equipment	25	**107,045**	85,597
Share of results of associates and joint ventures		**(12,247)**	(17,339)
Dividend income	6	**(5,318)**	(229)
Realised gain on sale of investments carried at fair value through profit and loss	6	**(26,321)**	(38,217)
Unrealised (gain) loss on investments carried at fair value through profit and loss	6	**(15,821)**	8,451
Loss (gain) on disposal of property and equipment		**10,687**	(47)
Provision for impairment, net	12	**802,324**	821,070
Gain on disposal of investment in associate	6	**(44,328)**	-
Loss on sale of investment properties	8	**331**	73
Gain on sale of development properties	9	**(1,140)**	(4,283)
Operating profit before changes in operating assets and liabilities		**2,025,722**	2,015,960
Encashed (purchase) of Islamic certificate of deposits		**1,451,972**	(3,659,611)
Decrease in balances and wakala deposits with Islamic banks and other financial institutions		**246,562**	69,982
Decrease in murabaha and mudaraba with financial institutions		**19,032**	2,274,889
Increase in murabaha and other Islamic financing		**(777,684)**	(1,015,276)
Increase in ijara financing		**(2,144,978)**	(609,678)
Purchase of investments carried at fair value through profit and loss		**(3,631,625)**	(2,018,601)
Proceeds from sale of investments carried at fair value through profit and loss		**3,407,064**	1,994,030
Increase in other assets		**(177,376)**	(286,214)
Decrease in due to financial institutions		**(389,224)**	(1,243)
Increase (decrease) in depositors' accounts		**6,153,782**	(1,343,941)
Decrease in other liabilities		**(20,923)**	(285,557)
Cash from (used in) operations		**6,162,324**	(2,865,260)
Directors' remuneration paid	41	**(4,200)**	(4,200)
Net cash from (used in) operating activities		**6,158,124**	(2,869,460)
INVESTING ACTIVITIES			
Dividend received	6	**5,318**	229
Purchase of investments carried at fair value through other comprehensive income		**(48,177)**	(11,018)
Proceeds from sale of investments carried at fair value through other comprehensive income		**12,509**	37,092
Purchase of investments carried at amortised cost		**(2,387,910)**	(40,419)
Redemption proceeds from investments carried at amortised cost		**36,725**	-
Proceeds from disposal of investment in associate	21	**51,535**	-
Dividends received from an associate	21	**4,497**	1,710
Proceeds from sale of investment properties	8	**6,438**	248
Additions to development properties	23	**(4,246)**	(16,447)
Proceeds from sale of development properties	9	**3,649**	10,989
Purchase of property and equipment		**(364,522)**	(235,451)
Proceeds from disposal of property and equipment		**-**	1,295
Net cash used in investing activities		**(2,684,184)**	(251,772)
FINANCING ACTIVITIES			
Tier 1 sukuk issued	35	**3,629,165**	-
Tier 1 sukuk issuance cost	35	**(37,281)**	-
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	**(120,000)**	(120,000)
(Repurchase) proceeds of sukuk assets - second issue	30	**(119,723)**	252,852
Repurchase of sukuk assets - first issue		**-**	(2,938,000)
Proceeds from the issuance of sukuk - third issue	30	**-**	1,836,250
Dividends paid		**(562,845)**	(473,309)
Net cash from (used in) financing activities		**2,789,316**	(1,442,207)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**6,263,256**	(4,563,439)
Cash and cash equivalents at 1 January		**11,392,464**	15,955,903
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	**17,655,720**	11,392,464

Operating cash flows from profit on balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, customer financing, Islamic sukuk and customer deposits are as follows:

Profit received		**3,501,246**	3,444,502
Profit paid to depositors and sukuk holders		**726,109**	884,923

The attached notes 1 to 45 form part of these consolidated financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Abu Dhabi Islamic Bank PJSC ("the Bank") was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

The Bank and its subsidiaries ("the Group") carry out full banking services, financing and investing activities through various islamic instruments such as Murabaha, Istisna'a, Mudaraba, Musharaka, Ijara, Wakalah, Sukuk etc. The activities of the Bank are conducted in accordance with Islamic Shari'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

In addition to its main office in Abu Dhabi, the Bank operates through its 75 branches in UAE and 2 overseas branches in Iraq and Sudan and subsidiaries in the UAE, Kingdom of Saudi Arabia and the United Kingdom. The consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

The registered office of the Bank is at P O Box 313, Abu Dhabi, UAE.

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 07 February 2013.

2 DEFINITIONS

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

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

Istisna'a
A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

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

Qard Hasan
A non-profit bearing loan enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

Musharaka
A contract between the Group and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either on ongoing basis or for a limited time, during which the Group enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

2 DEFINITIONS continued

Mudaraba
A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Wakalah
A contract between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

Sukuk
Certificates which are equal in value and represent common shares in the ownership of a specific physical asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

3 BASIS OF PREPARATION

3.1 (a) Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended).

3.1 (b) Accounting convention
The consolidated financial statements have been prepared under the historical cost convention except for investments carried at fair value through profit or loss, investments carried at fair value through other comprehensive income, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land which has been carried at revalued amount.

The consolidated financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Bank and all values are rounded to the nearest thousand AED except where otherwise indicated.

3.1 (c) Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	*Country of incorporation*	*Percentage of holding* **2012**	*2011*
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	**95%**	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
Kawader Services Company LLC	Manpower supply	United Arab Emirates	**100%**	100%
Saudi Installment House	Retail finance	Kingdom of Saudi Arabia	**51%**	-
ADIB (UK) Limited	Islamic banking	United Kingdom	**100%**	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	**-**	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	**-**	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	**-**	-

* The Bank does not have any direct holding in ADIB Sukuk Company Ltd, ADIB Sukuk Company II Ltd or ADIB Capital Invest 1 Ltd and each are considered to be a subsidiary by virtue of control.

3 BASIS OF PREPARATION continued

3.1 (c) Basis of consolidation continued
A subsidiary is an entity over which the Bank exercises control, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. These consolidated financial statements include the operations of the subsidiaries over which the Bank has control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

3.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements

The adoption of the standards or interpretations is described below:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the financial statements.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards / amendments to standards which were issued up to 31 December 2012 and are not yet effective for the year ended 31 December 2012 have not been applied while preparing these consolidated financial statements:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income- 1 July 2012
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

IAS 19 Employee Benefits (Amendment) – 1 January 2013
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

IAS 27 Separate Financial Statements (as revised in 2011) – 1 January 2013
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Bank does not present separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) – 1 January 2013
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

IAS 32 Offsetting Financial Assets and Financial Liabilities – 1 January 2014
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities – 1 January 2013
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

IFRS 10 Consolidated Financial Statements – 1 January 2013
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

IFRS 11 Joint Arrangements – 1 January 2013
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 Disclosure of Involvement with Other Entities – 1 January 2013
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

IFRS 13 Fair Value Measurement – 1 January 2013
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements, also considering Sharia' principles, for the period when they become effective. Management does not expect that the above new standards and amendments will have a significant impact on the Group's financial statements.

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

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

Impairment losses on financing assets and investments carried at amortised cost
The Group reviews its financing assets and investments carried at amortised cost on a regular basis to assess whether a provision for impairment should be recorded in the consolidated income statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of individually impaired provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Collective impairment provisions on financing assets
In addition to specific provisions against individually impaired financing assets, the Bank also makes collective impairment provisions against portfolio of financing assets with common features which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

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

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Investment and development properties
The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 22.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

Classification of properties
In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers 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.

Impairment of investments in associates and joint venture
Management regularly reviews its investment in associates and joint venture for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. If managements' review results in impairment, the difference between the estimated recoverable amount and the carrying value of investment in associates and joint venture is recognised as an expense in the consolidated income statement.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Impairment review of investment properties, development properties and advances paid against purchase of properties
Investment properties, development properties and advances paid against purchase of properties 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 and discounted using a range of discount 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 impairment.

The assessment of current market conditions, including cost of project completion, future rental and occupancy rates and assessment of the projects capital structure and discount rates requires management to exercise its judgment. Management uses internal and external experts to exercise this judgment.

Impairment of goodwill
On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful life of property and equipment
The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

Business combinations
Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, the purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. Determining the fair value of assets acquired and liabilities assumed requires estimation by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, the useful lives of intangibles and other assets and market multiples. The Group's management uses all available information to make these fair value determinations. The Group has, if necessary, up to one year after acquisition closing date to complete these fair value determinations and finalise the purchase price allocation. For more details of the business combinations refer to note 45.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition
Murabaha
Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a
Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time apportioned basis.

Ijara
Ijara income is recognised on a time apportioned basis over the lease term.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Musharaka

Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the Bank's consolidated income statement on their declaration by the Mudarib.

Sukuk

Income is accounted for on a time apportioned basis over the terms of the Sukuk.

Sale of properties

Revenue on sale of properties is recognised as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of units or apartments is deferred until completion of construction works and when delivery to the buyer takes place.

Fee and commission income

Fee and commission income is recognised when the related services are performed.

Operating lease income

Operating lease income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

Gain on sale of investments

Gain or loss on disposal of FVTPL investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of FVTOCI investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

Dividends

Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of properties

Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the carrying amount at which it is recorded in the books.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments
Recognition and Measurement
Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:
- Customer financing;
- Balances and wakala deposits Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments; and
- Sharia compliant alternatives of derivatives.

The Group's customer financing comprise the following:
- Murabaha and other Islamic financing; and
- Ijara financing.

Effective 1 January 2011, the Group early adopted IFRS 9 'Financial Instruments' in line with the transitional provisions of IFRS 9.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

Classification
Financial assets at amortised cost
Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuks, are measured at amortised cost, if both 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 financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

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

Financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued
Classification continued
Financial assets at fair value through profit or loss ("FVTPL") continued
Financial asset are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets that are designated as FVTPL on initial recognition is not allowed.

Financial assets at fair value through other comprehensive income ("FVTOCI")
At initial recognition, the Group can make an irrevocable election (on instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

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

Measurement
Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including customer financing and investment in sukuks are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Balances and wakala deposits with Islamic banks and other financial institutions are stated at amortised cost less amounts written off and provision for impairment, if any.

Murabaha and mudaraba with financial institutions are stated at amortised cost (which excludes deferred income or expected profits) less provisions for impairment.

Islamic financing consist of murabaha receivables, mudaraba, Istisna'a, Islamic covered cards (murabaha based) and other Islamic financing.

Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing are stated at amortised cost (which excludes deferred income) less any provisions for impairment.

The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued
Measurement continued
Financial assets at fair value through profit or loss ("FVTPL")
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

Financial assets at fair value through other comprehensive income ("FVTOCI")
Investments in equity instruments 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 the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity. Where the assets are disposed off, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. As per the requirement of IFRS 9, financial assets measured at FVTOCI are not tested for impairment.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions
- net asset values (in limited circumstances)

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

(i) Recognition / De-recognition
The Group initially recognises financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financing to customers are recognised on the day they are originated. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instruments.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, and financial assets at fair value through other comprehensive income that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued
Measurement continued
(ii) Offsetting of financial instruments
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a enforceable right legally and under Sharia'a framework to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iii) Impairment of financial assets
Customer financing
The recoverable amount of customer financing is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective profit rate. Short-term balances are not discounted. Financing is presented net of impairment allowances. Specific allowances are made against the carrying amount of financing that are identified as being impaired, based on regular reviews of outstanding balances to reduce these financing to their recoverable amounts. Portfolio allowances are maintained to reduce the carrying amount of portfolios of similar financing to their estimated recoverable amounts at the statement of financial position date. Changes in the allowance account are recognized in the consolidated income statement. When a financing is known to be irrecoverable, and all the necessary legal procedures have been completed, the final loss is determined and the financing is written off.

If in a subsequent period the amount of an impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated income statement.

Renegotiated financing facilities
Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms and the financing facility is no longer considered past due. Management continually reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The financing facility continue to be subject to an individual or collective impairment assessment, calculated using the financing facilities' original effective profit rate.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

Impairment of non-financial assets
The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations
Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the cash and equity interests issued by the Bank in exchange for control of the acquiree. Acquisition related costs are recognised in consolidated income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statements as gain on acquiring controlling interest.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations continued
When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank obtains control) and the resulting gain or loss, if any, is recognised in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill
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 Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank'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 consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units which are 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.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associates
The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in joint ventures
The Group has investment in joint ventures, which are jointly controlled entities, whereby venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The Group's investment in joint ventures is accounted for using the equity method of accounting.

Under the equity method, the investment in the joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. The consolidated income statement reflects the share of the results of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The financial statements of the ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated income statement.

Investment properties
Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is estimated to be 25 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

Development properties
Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed.

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at revalued amount in the consolidated financial statements.

Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

• Buildings	25 years
• Furniture and leasehold improvements	7 years
• Computer and office equipment	4 years
• Motor vehicles	4 years

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment continued
The carrying values of properties and equipments are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated income statement as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognized.

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

When an asset is revalued, any increase in the carrying amount arising on revaluation is credited directly to equity under revaluation reserve, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

Provisions and contingent liabilities
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Deposits
Customer deposits and due to banks and other financial institutions are carried at amortised cost.

Sukuk financing instruments
Sukuk financing instruments are initially measured at fair value and then are subsequently measured at amortised cost using the effective profit rate method, with profit distribution recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit distribution over the relevant period. The effective profit 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 to the net carrying amount of the financial asset or financial liability.

Employees' pension and end of service benefits
The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are included within 'other liabilities' in the consolidated statement of financial position.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Shari'a compliant alternatives of derivative financial instruments
The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of 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 recognized pricing models as appropriate.

The Bank enters into cash flows hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized 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 Bank 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.

Cash flow hedges
The effective portion of changes in the fair value of Shari'a compliant alternatives 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 recognized immediately in the consolidated income statement. 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 equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a nonfinancial 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 equity are immediately transferred to the consolidated income statement.

Net investment hedge
Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in consolidated statement of comprehensive income within foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement on the disposal of the foreign operations.

Zakat
Zakat is computed in accordance with the Articles and Memorandum of Association of the Bank and is approved by the Fatwa and Shari’a Supervisory Board. As stated in the Articles and Memorandum of Association of the Bank, it is the responsibility of the shareholders to pay Zakat due on their investment.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 & Shari’a Standard number 35, and the Group's Fatwa and Shari'a Supervisory Board Resolutions.

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 39).

4 SIGNIFICANT ACCOUNTING POLICIES continued

Profit distribution
Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Investment in subsidiaries is funded from the shareholders' funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders' funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts profit can be reserved as "Profit Equalization Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

Cash and cash equivalents
For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Trade and settlement date accounting
All "regular way" purchase and sales of financial assets are recognized on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Prohibited income
According to the Fatwa and Shari'a Supervisory Board "FSSB", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Group under the supervision of the FSSB (as purification amount).

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

Foreign currencies
The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial guarantees
In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in 'net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated income statement in 'net fees and commission income' when the guarantee is discharged, cancelled or expires.

Segment reporting
The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares and contracts on own equity instruments
Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

5 INCOME FROM MURABAHA, MUDARABA, IJARA AND OTHER ISLAMIC FINANCING FROM CUSTOMERS

	2012 *AED '000*	*2011* *AED '000*
Vehicle murabaha	**480,607**	556,244
Goods murabaha	**185,031**	201,773
Share murabaha	**784,110**	702,333
Commodities murabaha – Al Khair	**232,750**	251,607
Other murabaha	**59,155**	57,184
Total murabaha	**1,741,653**	1,769,141
Mudaraba	**117,473**	116,420
Ijara	**1,543,962**	1,521,106
Islamic covered cards (murabaha)	**199,319**	181,386
Istisna'a	**17,050**	21,347
	3,619,457	3,609,400

6 INVESTMENT INCOME

	2012 AED '000	2011 AED '000
Income from Islamic sukuk	**101,064**	46,674
Income from other investment assets	**5,355**	9,387
Dividend income	**5,318**	229
Gain from disposal of investment in associate (note 21)	**44,328**	-
Realised gain on sale of investments carried at fair value through profit and loss	**26,321**	38,217
Unrealised gain (loss) on investments carried at fair value through profit and loss	**15,821**	(8,451)
	198,207	86,056

7 FEES AND COMMISSION INCOME, NET

	2012 AED '000	2011 AED '000
Fees and commission income		
Fees and commission income on cards	**264,652**	207,185
Trade related fees and commission	**99,167**	76,997
Accounts services fees	**36,180**	66,888
Projects and property management fees	**37,341**	42,674
Risk participation and arrangement fees	**53,053**	71,588
Brokerage fees and commission	**18,162**	14,703
Other fees and commissions	**63,464**	76,631
Total fees and commission income	**572,019**	556,666
Fees and commission expenses		
Card related fees and commission expenses	**(145,819)**	(102,022)
Other fees and commission expenses	**(30,592)**	(25,305)
Total fees and commission expenses	**(176,411)**	(127,327)
Fees and commission income, net	**395,608**	429,339

8 INCOME FROM INVESTMENT PROPERTIES

	2012 AED '000	2011 AED '000
Proceeds from sale of investment properties	**6,438**	248
Less: net book value of properties sold	**(6,769)**	(321)
Loss on sale of investment properties	**(331)**	(73)
Rental income (note 22)	**7,786**	7,816
	7,455	7,743

9 INCOME FROM DEVELOPMENT PROPERTIES

	2012 *AED '000*	*2011* *AED '000*
Revenue from sale of development properties	**3,649**	10,989
Less: cost of properties sold (note 23)	**(2,509)**	(6,706)
Gain on sale of development properties	**1,140**	4,283
Provision for rent guarantee	**-**	(105)
	1,140	4,178

Provision for rent guarantee represents provision against the minimum rental income guaranteed by a subsidiary of the Bank to the buyers of properties at the time of sale. Rent guarantee is computed as the difference between guaranteed and expected rent as of the reporting date.

10 EMPLOYEES' COSTS

	2012 *AED '000*	*2011* *AED '000*
Salaries and wages	**855,369**	814,342
End of service benefits	**55,169**	50,713
Other staff expenses	**30,564**	30,680
	941,102	895,735

11 GENERAL AND ADMINISTRATIVE EXPENSES

	2012 *AED '000*	*2011* *AED '000*
Legal and professional expenses	**69,449**	89,592
Premises expenses	**159,976**	141,637
Marketing and advertising expenses	**88,684**	88,987
Communication expenses	**47,147**	41,601
Technology related expenses	**49,961**	29,808
Other operating expenses	**89,418**	70,904
	504,635	462,529

12 PROVISION FOR IMPAIRMENT, NET

	Notes	***2012 AED '000***	*2011 AED '000*
Murabaha and mudaraba with financial institutions	17	**-**	(16,178)
Murabaha and other Islamic financing	18	**238,484**	331,089
Ijara financing	19	**365,822**	413,967
Direct write-off		**4,738**	1,149
Investments	20	**3,267**	1,377
Investment properties	22	**1,422**	1,631
Other assets	24	**188,591**	88,035
		802,324	821,070

The above provision for impairment includes AED 190,013 thousand (2011: AED 196,058 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

13 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2012 AED '000	*2011 AED '000*
Saving accounts	**117,303**	110,669
Investment accounts	**421,876**	546,512
Sukuk holders and Tier 2 wakala capital	**273,534**	229,304
	812,713	886,485

14 BASIC AND DILUTED EARNINGS PER SHARE

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

Diluted earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of any financial instruments with dilutive effects.

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

	Note	***2012***	*2011*
Profit for the year attributable to equity holders (AED '000)		**1,199,931**	1,154,969
Less: profit attributable to Tier 1 sukuk holder (AED '000)	35	**(120,000)**	(120,000)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		**1,079,931**	1,034,969
Weighted average number of ordinary shares in issue (000's)		**2,364,706**	2,364,706
Basic and diluted earnings per share (AED)		**0.457**	0.438

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised.

15 CASH AND BALANCES WITH CENTRAL BANKS

	2012 AED '000	*2011 AED '000*
Cash on hand	**1,247,654**	1,121,403
Balances with central banks:		
- Current accounts	**85,384**	1,310,023
- Statutory reserve	**5,044,983**	4,216,019
- Islamic certificate of deposits	**4,908,882**	4,559,700
	11,286,903	11,207,145

The Bank is required to maintain statutory reserves with the Central Bank of the UAE and Iraq in AED and US Dollar on demand, time and other deposits. The statutory reserves are not available for use in the Bank's day-to-day operations and cannot be withdrawn without the approval of the Central Bank. Cash on hand and current accounts are not profit-bearing. Islamic certificate of deposits are profit bearing, which is based on entering into international commodities Murabaha transaction in which Central Bank of the UAE is the buyer and the Bank is the seller.

The distribution of the cash and balances with central banks by geographic region is as follows:

	2012 AED '000	*2011 AED '000*
UAE	**11,197,026**	11,180,439
Middle East	**34,732**	26,706
Europe	**1,191**	-
Others	**53,954**	-
	11,286,903	11,207,145

16 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	2012 AED '000	*2011 AED '000*
Current accounts	**187,139**	92,766
Wakala deposits	**3,934,341**	2,422,605
	4,121,480	2,515,371

In accordance with Shari'a principles, deposits are invested only with Islamic financial institutions. The Bank does not earn profits on current accounts with banks and financial institutions.

16 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS continued

The distribution of the balances and wakala deposits with Islamic banks and other financial institutions by geographic region is as follows:

	2012 *AED '000*	*2011* *AED '000*
UAE	**2,095,095**	1,504,836
Middle East	**382,930**	5,449
Europe	**97,353**	35,874
Others	**1,546,102**	969,212
	4,121,480	2,515,371

17 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2012 *AED '000*	*2011* *AED '000*
Murabaha	**9,668,009**	5,128,884
Mudaraba	**216,739**	217,428
	9,884,748	5,346,312
Less: provision for impairment	**(129,811)**	(129,811)
	9,754,937	5,216,501

In accordance with Shari'a principles, Mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

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

	2012 *AED '000*	*2011* *AED '000*
At 1 January	**129,811**	190,310
Reversal for the year (note 12)	**-**	(16,178)
Written off during the year	**-**	(44,321)
At 31 December	**129,811**	129,811

The distribution of the gross murabaha and mudaraba with financial institutions by geographic region is as follows:

UAE	**9,232,098**	4,410,811
Middle East	**228,537**	229,943
Europe	**283,595**	548,322
Others	**140,518**	157,236
	9,884,748	5,346,312

18 MURABAHA AND OTHER ISLAMIC FINANCING

	2012 *AED '000*	*2011* *AED '000*
Vehicle murabaha	**6,478,901**	7,254,813
Goods murabaha	**3,601,090**	3,750,614
Share murabaha	**10,843,738**	9,796,068
Commodities murabaha – Al Khair	**3,744,646**	3,762,154
Other murabaha	**2,762,873**	2,189,802
Total murabaha	**27,431,248**	26,753,451
Mudaraba	**1,950,574**	2,592,419
Islamic covered cards (murabaha)	**4,826,941**	4,156,481
Istisna'a	**153,833**	235,756
Other financing receivables	**107,332**	163,584
Total murabaha and other Islamic financing	**34,469,928**	33,901,691
Less: deferred income on murabaha	**(8,521,691)**	(8,318,993)
	25,948,237	25,582,698
Less: provision for impairment	**(1,996,460)**	(2,217,139)
	23,951,777	23,365,559

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

	2012			*2011*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**1,829,876**	**387,263**	**2,217,139**	1,608,567	289,023	1,897,590
Charge for the year (note 12)	**217,662**	**20,822**	**238,484**	232,849	98,240	331,089
Written off during the year	**(459,163)**	**-**	**(459,163)**	(11,540)	-	(11,540)
At 31 December	**1,588,375**	**408,085**	**1,996,460**	1,829,876	387,263	2,217,139

18 MURABAHA AND OTHER ISLAMIC FINANCING continued

The distribution of the gross murabaha and other Islamic financing by industry sector and geographic region was as follows:

	2012 *AED '000*	*2011* *AED '000*
Industry sector:		
Government	**122,353**	131,803
Public sector	**209,341**	216,847
Corporates	**5,245,759**	5,517,910
Financial institutions	**541,005**	590,049
Individuals	**19,034,284**	18,592,543
Small and medium enterprises	**795,495**	533,546
	25,948,237	25,582,698
Geographic region:		
UAE	**24,618,806**	24,427,314
Middle East	**908,846**	759,202
Europe	**353,477**	363,382
Others	**67,108**	32,800
	25,948,237	25,582,698

19 IJARA FINANCING

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	2012 *AED '000*	*2011* *AED '000*
The aggregate future lease receivables are as follows:		
Due within one year	**7,018,706**	6,405,365
Due in the second to fifth year	**16,516,618**	17,025,468
Due after five years	**11,969,991**	9,347,515
Total ijara financing	**35,505,315**	32,778,348
Less: deferred income	**(7,159,108)**	(6,519,499)
Net present value of minimum lease payments receivable	**28,346,207**	26,258,849
Less: provision for impairment	**(1,101,269)**	(793,067)
	27,244,938	25,465,782

19 IJARA FINANCING continued

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

	2012			*2011*		
	Individual impairment AED '000	***Collective impairment AED '000***	***Total AED '000***	*Individual impairment AED '000*	*Collective impairment AED '000*	*Total AED '000*
At 1 January	**417,485**	**375,582**	**793,067**	92,779	286,321	379,100
Charge for the year (note 12)	**333,790**	**32,032**	**365,822**	324,706	89,261	413,967
Written off during the year	**(57,620)**	**-**	**(57,620)**	-	-	-
At 31 December	**693,655**	**407,614**	**1,101,269**	417,485	375,582	793,067

The distribution of the gross ijara financing by industry sector and geographic region was as follows:

	2012 AED '000	*2011 AED '000*
Industry sector:		
Government	**88,587**	165,087
Public sector	**2,394,866**	2,285,682
Corporates	**11,840,442**	10,327,176
Financial institutions	**351,844**	678,460
Individuals	**13,220,219**	12,394,098
Small and medium enterprises	**450,249**	408,346
	28,346,207	26,258,849
Geographic region:		
UAE	**27,842,569**	25,439,128
Middle East	**10,444**	15,670
Others	**493,194**	804,051
	28,346,207	26,258,849

20 INVESTMENTS

	2012 AED '000	2011 AED '000
Investments carried at fair value through profit or loss		
Equities	-	2,625
Sukuk	1,115,689	846,361
	1,115,689	848,986
Investments carried at fair value through other comprehensive income		
Quoted investments		
Equities	22,955	16,454
Unquoted investments		
Funds	91,797	174,723
Private equities	236,380	172,033
	328,177	346,756
	351,132	363,210
Investments carried at amortised cost		
Sukuk	2,788,327	440,409
Total investments	4,255,148	1,652,605

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

	2012 AED '000	2011 AED '000
At 1 January	78,041	76,664
Charge for the year (note 12)	3,267	1,377
At 31 December	81,308	78,041

The distribution of the gross investments by geographic region was as follows:

	2012	2011
UAE	2,605,827	1,109,453
Middle East	1,351,616	422,111
Europe	180	178
Others	378,833	198,904
	4,336,456	1,730,646

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

	2012 *AED '000*	*2011* *AED '000*
Cost of investment	**831,063**	861,273
Share of results	**17,239**	12,479
Dividend received	**(4,497)**	(1,710)
Foreign currency translation	**(73,496)**	12,244
	770,309	884,286
Less: provision for impairment	**(4,284)**	(32,783)
	766,025	851,503

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

At 1 January	**32,783**	32,783
Written off during the year	**(28,499)**	-
At 31 December	**4,284**	32,783

Details of the Bank's investment in associates and joint venture at 31 December is as follows:

	Place of incorporation	*Proportion of ownership interest* *2012* *%*	*2011* *%*	*Principal activity*
Associates				
Abu Dhabi National Takaful PJSC	UAE	**40**	40	Islamic insurance
BBI Leasing and Real Estate D.O.O	Bosnia	**-**	32	Islamic leasing and real estate
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
Joint venture				
National Bank for Development	Egypt	**49**	49	Banking (under conversion to Islamic bank)

Summarised financial information of investment in associates and joint venture are set out below:

	2012 *AED '000*	*2011* *AED '000*
Share of associates and joint venture's statement of financial position		
Assets	**4,006,399**	4,258,643
Liabilities	**(4,007,642)**	(4,412,165)
Net assets	**(1,243)**	(153,522)
Share of associates and joint venture's revenue and profits:		
Revenue for the year	**114,091**	104,843
Profit for the year	**12,247**	17,339

As of 31 December 2012, the Bank's share of the contingent liabilities and commitments of associates and joint venture amounted to AED 157,747 thousand (2011: AED 148,438 thousand). The equity instruments of Abu Dhabi National Takaful PJSC are quoted in Abu Dhabi Securities Exchange, UAE and the quoted value of the Banks' share of investment at 31 December 2012 amounted to AED 200,629 thousand (2011: 224,890 thousand).

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURE continued

The distribution of the gross investment in associates and joint venture by geographic region was as follows:

	2012 *AED '000*	*2011* *AED '000*
UAE	**133,640**	127,633
Europe	**34,111**	69,095
Others	**602,558**	687,558
	770,309	884,286

Disposal of investment in associate
In September 2012, the Bank entered into a binding sale and purchase agreement ("Agreement") for the disposal of its entire equity holding in BBI Leasing and Real Estate D.O.O for a consideration of AED 51,535 thousand. Through this agreement the Bank transferred its risks and rewards with respect to the ownership of BBI Leasing and Real Estate D.O.O to the purchaser and recognized the disposal and gain on disposal in the third quarter of 2012. This investment was treated as an associate until the date the disposal occurred. The total share of profits from BBI Leasing and Real Estate D.O.O recognized in the consolidated income statement during the year ended 31 December 2012 amounted to AED 101 thousand.

The excess of sale consideration over the net carrying value of the investment in associate and net of hedge reserves as on the date of disposal has been included in the 'Gain on disposal of investment in associate' in the consolidated income statement and is calculated as follows:

	31 December 2012 AED '000
Sale consideration	**51,535**
Less: carrying value of investment in associate	**(8,809)**
Add: foreign currency translation reserve recycled from other comprehensive income (note 34)	**1,915**
	44,641
Less: transaction cost	**(313)**
Gain on disposal of investment in associate (note 6)	**44,328**

22 INVESTMENT PROPERTIES

The movement in investment properties balance during the year was as follows:

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2012			
Cost:			
Balance at 1 January	30,131	147,498	177,629
Transfer from development properties (note 23)	-	131,103	131,103
Transfer from other assets (note 40)	-	37,300	37,300
Disposals	-	(7,037)	(7,037)
Gross balance at 31 December	30,131	308,864	338,995
Less: provision for impairment	(5,542)	(10,641)	(16,183)
Net balance at 31 December	**24,589**	**298,223**	**322,812**
Accumulated depreciation:			
Balance at 1 January	-	7,628	7,628
Charge for the year	-	9,278	9,278
Relating to disposals	-	(268)	(268)
Balance at 31 December	**-**	**16,638**	**16,638**
Net book value at 31 December	**24,589**	**281,585**	**306,174**
2011			
Cost:			
Balance at 1 January	30,452	192,043	222,495
Transfer from development properties (note 23)	-	93,439	93,439
Transfer from other assets (note 40)	-	66,027	66,027
Transfer to property and equipment	-	(204,011)	(204,011)
Disposals	(321)	-	(321)
Gross balance at 31 December	30,131	147,498	177,629
Less: provision for impairment	(5,542)	(9,219)	(14,761)
Net balance at 31 December	24,589	138,279	162,868
Accumulated depreciation:			
Balance at 1 January	-	12,759	12,759
Charge for the year	-	5,793	5,793
Relating to transfer to property and equipment	-	(10,924)	(10,924)
Balance at 31 December	-	7,628	7,628
Net book value at 31 December	24,589	130,651	155,240

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 7,786 thousand (2011: AED 7,816 thousand).

The fair values of investment properties at 31 December 2012 amounted to AED 334,449 thousand (2011: AED 173,064 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or based on valuation models.

22 INVESTMENT PROPERTIES continued

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

	Land AED '000	*Other properties AED '000*	*Total AED '000*
At 1 January 2011	5,442	12,640	18,082
Charge for the year (note 12)	100	1,531	1,631
Written off during the year	-	(4,952)	(4,952)
At 1 January 2012	5,542	9,219	14,761
Charge for the year (note 12)	-	1,422	1,422
At 31 December 2012	**5,542**	**10,641**	**16,183**

The distribution of investment properties by geographic region was as follows:

	Land AED '000	*Other properties AED '000*	*Total AED '000*
2012:			
UAE	**21,883**	**292,226**	**314,109**
Middle East	**8,248**	**-**	**8,248**
	30,131	**292,226**	**322,357**
2011:			
UAE	21,883	139,870	161,753
Middle East	8,248	-	8,248
	30,131	139,870	170,001

23 DEVELOPMENT PROPERTIES

The movement in development properties during the year was as follows:

	2012 AED '000	*2011 AED '000*
Balance at 1 January	**966,747**	1,050,445
Additions	**4,246**	16,447
Transfer to investment properties (note 22)	**(131,103)**	(93,439)
Disposals (note 9)	**(2,509)**	(6,706)
Balance at 31 December	**837,381**	966,747

Development properties include land with a carrying value of AED 800,000 thousand (2011: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2012 *AED '000*	*2011* *AED '000*
Advances against purchase of properties	**1,267,062**	1,299,280
Assets acquired in satisfaction of claims	**106,392**	-
Trade receivables	**216,439**	277,761
Cheques for collection	**-**	2,614
Prepaid expenses	**311,111**	259,880
Accrued profit	**43,100**	6,017
Advance to contractors	**700**	1,653
Advance for investments	**183,625**	183,625
Others	**196,491**	177,323
	2,324,920	2,208,153
Less: provision for impairment	**(406,977)**	(243,503)
	1,917,943	1,964,650

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

	Advances against purchase of properties AED '000	*Trade receivables AED '000*	*Advance for investments AED '000*	*Others AED '000*	*Total AED '000*
At 1 January 2011	74,031	30,100	106,392	10,414	220,937
Charge for the year (note 12)	184,013	-	(106,392)	10,414	88,035
Written off during the year	(65,469)	-	-	-	(65,469)
At 1 January 2012	192,575	30,100	-	20,828	243,503
Charge for the year (note 12)	185,536	-	-	3,055	188,591
Written off during the year	(24,843)	(274)	-	-	(25,117)
At 31 December 2012	**353,268**	**29,826**	**-**	**23,883**	**406,977**

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as "Assets acquired in satisfaction of claims". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

25 PROPERTY AND EQUIPMENT

	Land *AED '000*	*Buildings* *AED '000*	*Furniture and fixtures* *AED '000*	*Computer and office equipment* *AED '000*	*Motor vehicles* *AED '000*	*Capital work-in progress* *AED '000*	*Total* *AED '000*
2012							
Cost or revaluation:							
At 1 January	241,478	185,248	247,929	378,849	11,673	262,396	1,327,573
Additions	-	300	25,641	53,379	4,075	282,223	365,618
Transfers from capital work-in-progress	-	29,433	11,634	34,206	-	(75,273)	-
Disposals	-	-	(1,171)	(8,746)	(1,898)	-	(11,815)
At 31 December	**241,478**	**214,981**	**284,033**	**457,688**	**13,850**	**469,346**	**1,681,376**
Depreciation:							
At 1 January	-	5,487	110,247	230,103	7,773	-	353,610
Charge for the year	-	6,590	34,128	64,615	1,712	-	107,045
Relating to disposals	-	-	(388)	(518)	(222)	-	(1,128)
At 31 December	**-**	**12,077**	**143,987**	**294,200**	**9,263**	**-**	**459,527**
Net book value:							
At 31 December	**241,478**	**202,904**	**140,046**	**163,488**	**4,587**	**469,346**	**1,221,849**
2011							
Cost or revaluation:							
At 1 January	129,315	14,838	199,647	304,133	9,818	196,546	854,297
Additions	-	350	8,557	66,197	1,986	158,361	235,451
Transfers from capital work-in-progress	-	42,753	41,239	8,519	-	(92,511)	-
Transfer from investment properties	98,402	89,733	-	-	-	-	188,135
Transfer from other assets (note 40)	-	37,574	-	-	-	-	37,574
Surplus on revaluation (note 34)	13,761	-	-	-	-	-	13,761
Disposals	-	-	(1,514)	-	(131)	-	(1,645)
At 31 December	241,478	185,248	247,929	378,849	11,673	262,396	1,327,573
Depreciation:							
At 1 January	-	2,951	83,797	175,889	5,773	-	268,410
Charge for the year	-	2,536	26,735	54,214	2,112	-	85,597
Relating to disposals	-	-	(285)	-	(112)	-	(397)
At 31 December	-	5,487	110,247	230,103	7,773	-	353,610
Net book value:							
At 31 December	241,478	179,761	137,682	148,746	3,900	262,396	973,963

26 DUE TO FINANCIAL INSTITUTIONS

	2012 *AED '000*	*2011* *AED '000*
Current accounts	**286,965**	171,203
Investment deposits	**2,813,360**	1,760,223
	3,100,325	1,931,426
Current account – Central Bank of UAE	**33,568**	-
	3,133,893	1,931,426

The distribution of due to financial institutions by geographic region was as follows:

UAE	**2,157,422**	753,337
Middle East	**579,555**	143,174
Europe	**136,320**	163,473
Others	**260,596**	871,442
	3,133,893	1,931,426

27 DEPOSITORS' ACCOUNTS

	2012 *AED '000*	*2011* *AED '000*
Current accounts	**16,963,281**	14,234,786
Saving accounts	**14,947,937**	11,182,629
Investment accounts	**29,191,335**	29,613,769
Profit equalisation reserve	**223,594**	140,599
	61,326,147	55,171,783

The movement in the profit equalisation reserve during the year was as follows:

At 1 January	**140,599**	64,788
Share of profit for the year	**82,995**	75,811
At 31 December	**223,594**	140,599

The distribution of the gross depositors' accounts by industry sector, geographic region and currency was as follows:

	2012 *AED '000*	*2011* *AED '000*
Industry sector:		
Government	**7,071,394**	7,555,541
Public sector	**9,313,353**	8,208,031
Corporates	**5,289,996**	5,058,507
Financial institutions	**1,399,588**	2,709,678
Individuals	**30,925,380**	25,473,050
Small and medium enterprises	**7,326,436**	6,166,976
	61,326,147	55,171,783

27 DEPOSITORS' ACCOUNTS continued

	2012 *AED '000*	*2011* *AED '000*
Geographic region:		
UAE	**59,462,813**	54,956,943
Middle East	**1,766,784**	42,779
Europe	**88,275**	5,074
Others	**8,275**	166,987
	61,326,147	55,171,783
Currencies:		
UAE Dirham	**48,308,027**	45,630,631
US Dollar	**12,553,917**	9,146,904
Euro	**296,343**	355,754
Sterling Pound	**128,134**	35,153
Others	**39,726**	3,341
	61,326,147	55,171,783

The Bank invests all of its investment accounts including saving accounts, adjusted for UAE and Iraq Central Bank reserve requirements and the Group's liquidity requirements.

With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

28 OTHER LIABILITIES

	2012 *AED '000*	*2011* *AED '000*
Accounts payable	**283,677**	349,922
Payable for purchase of properties	**24,172**	64,578
Accrued profit for distribution to depositors and sukuk holders	**160,335**	158,164
Bankers' cheques	**216,559**	137,903
Provision for staff benefits and other expenses	**245,852**	258,895
Retentions payable	**172,819**	274,202
Advances from customers	**57,503**	58,803
Accrued legal and professional charges	**13,096**	3,494
Accrued expenses	**112,184**	73,003
Unclaimed dividends	**105,532**	90,831
Deferred income	**86,248**	26,679
Charity account	**4,853**	6,528
Donation account	**689**	344
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 38)	**28,542**	19,578
Others	**362,262**	339,833
	1,874,323	1,862,757

29 TIER 2 WAKALA CAPITAL

In December 2008, the UAE Federal government ("the Government") placed deposits with the Bank for a period of 3 - 5 years. Subsequent to the deposit placements, the Government offered, subject to certain terms and conditions and in accordance with the Central Bank's capital adequacy requirements, to convert the deposits, into capital qualifying as Tier 2 capital. Pursuant to the Extraordinary General Meeting held on 22 March 2009, the shareholders approved, subject to the terms of an instrument to be entered into with the Government, the conversion of these deposits into a Tier 2 capital. On 31 December 2009, a Shari'a compliant wakala agreement was signed by the Bank. In accordance with the terms of that agreement the deposits were converted into Tier 2 qualifying wakala capital.

The wakala capital is an unsecured subordinated obligation of the Bank which has been provided to the Bank for a term of 7 years. However, the Bank may, subject to certain conditions, return the wakala capital to the Government prior to the expiry of the 7 year term. The Tier 2 qualifying wakala capital bears an expected profit rate ranging, over the term that it has been provided, from 4% - 5.25%. The profit rate is payable quarterly in arrears. In limited circumstances and subject to certain conditions, the Government has the ability to convert all or part of the wakala capital into ordinary shares of the Bank at the prevailing market price.

30 SUKUK FINANCING INSTRUMENTS

	2012	*2011*
	AED '000	*AED '000*
Second issue	**2,634,652**	2,754,375
Third issue	**1,836,250**	1,836,250
	4,470,902	4,590,625

Second issue - USD 750 million
In November 2010, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,754,375 thousand (USD 750 million) as the second issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2015. The sukuk deserved profit is distributed in accordance with fixed profit rate. As of 31 December 2012, sukuk with a face value of AED 119,723 thousand (USD 32.6 million) were repurchased by the Bank (2011: nil).

Third issue - USD 500 million
In November 2011, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 1,836,250 thousand (USD 500 million) as the third issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2016. The sukuk deserved profit is distributed in accordance with fixed profit rate.

Terms of arrangement
The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a sukuk company, ADIB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of AED 4,470,902 thousand (USD 1,217 million) (31 December 2011: AED 4,590,625 thousand (USD 1,250 million)).

31 SHARE CAPITAL

	2012	*2011*
	AED '000	*AED '000*
Authorised share capital:		
3,000,000 thousand (2011: 3,000,000 thousand) ordinary shares of AED 1 each (2011: AED 1 each)	**3,000,000**	3,000,000
Issued and fully paid share capital:		
2,364,706 thousand (2011: 2,364,706 thousand) ordinary shares of AED 1 each (2011: AED 1 each)	**2,364,706**	2,364,706

32 RESERVES

32.1 Legal reserve

As required by the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended) and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. The legal reserve is not available for distribution to the shareholders.

As per Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year.

32.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the Annual General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

32.3 Credit risk reserve

Upon the recommendation of the Board of Directors, the Bank has established a special reserve for credit risk which is subject to the approval by the shareholders in the Annual General Assembly. Contribution to the reserve are voluntary.

33 PROPOSED DIVIDENDS

	2012	*2011*
	AED '000	*AED '000*
Cash dividend: AED 0.2540 per share of AED 1 each (2011: AED 0.2442 per share of AED 1 each)	**600,616**	577,546

Cash dividend of 25.40% (2011: 24.42 %) of the paid up capital relating to year ended 31 December 2012 amounting to AED 600,616 thousand (2011: AED 577,546 thousand) shall be paid after the approval by the shareholders in the Annual General Assembly.

34 OTHER RESERVES

	Cumulative changes in fair values AED '000	*Land revaluation reserve AED '000*	*Foreign currency translation reserve AED '000*	*Hedging reserve AED '000*	*Total AED '000*
At 1 January 2011	(97,786)	129,239	13,565	(8,642)	36,376
Net loss on valuation of investments carried at FVTOCI	(86,616)	-	-	-	(86,616)
Loss on disposal of investment carried at fair value through other comprehensive income	19,372	-	-	-	19,372
Surplus on revaluation of land	-	13,761	-	-	13,761
Exchange differences arising on translation of foreign operations	-	-	(1,321)	-	(1,321)
Gain on hedge of foreign operations	-	-	1,321	-	1,321
Fair value loss on cash flow hedges	-	-	-	(10,936)	(10,936)
At 1 January 2012	(165,030)	143,000	13,565	(19,578)	(28,043)
Net gain on valuation of investments carried at FVTOCI	35,466	-	-	-	35,466
Loss on disposal of investment carried at fair value through other comprehensive income	1,385	-	-	-	1,385
Exchange differences arising on translation of foreign operations	-	-	(83,120)	-	(83,120)
Loss on hedge of foreign operations	-	-	(1,880)	-	(1,880)
Exchange differences recycled from consolidated income statement on disposal of investment in associate (note 21)	-	-	(1,915)	-	(1,915)
Fair value loss on cash flow hedges	-	-	-	(7,943)	(7,943)
At 31 December 2012	**(128,179)**	**143,000**	**(73,350)**	**(27,521)**	**(86,050)**

35 TIER 1 SUKUK

	2012 AED '000	*2011 AED '000*
Tier 1 sukuk	**3,629,165**	-
Tier 1 sukuk – Government of Abu Dhabi	**2,000,000**	2,000,000
	5,629,165	2,000,000

35 TIER 1 SUKUK continued

Tier 1 sukuk
On 19 November 2012, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk (the "Sukuk") amounting to AED 3,672,500 thousand (USD 1 billion). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 21 October 2012. As of 31 December 2012, sukuk with a face value of AED 43,335 thousand (USD 11.8 million) were repurchased by the Bank. Issuance cost amounting to AED 37,281 thousand were incurred.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk is callable by the Bank after period ending on 16 October 2018 (the “First Call Date”) or any profit payment date thereafter subject to certain conditions. The Sukuk bear an expected Mudaraba profit rate of 6.375% payable during the initial period of six years semi-annually in arrears. After the initial period, and for every 6th year thereafter, resets to a new expected Mudaraba profit rate based on the then 6 year LIBOR rate plus an expected margin of 5.393% Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

Tier 1 sukuk – Government of Abu Dhabi
On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk-Gov") to the Department of Finance of the Government of Abu Dhabi, with a principal amount of AED 2,000,000 thousand. Issuance of this Sukuk-Gov was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk-Gov is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk-Gov is callable by the Bank subject to certain conditions. The Sukuk-Gov bear an expected mudaraba profit rate of 6% payable during the initial period of five years semi-annually in arrears and, after the initial period, bear an expected variable mudaraba profit rate payable of 6 months EIBOR plus an expected margin of 2.3%. Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

36 NON-CONTROLLING INTEREST

Non-controlling interest represents the minority shareholder’s proportionate share in the aggregate value of the net assets of subsidiaries.

37 CONTINGENT LIABILITIES AND COMMITMENTS

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

Commitments to extend Islamic credit facilities represent contractual commitments under Islamic financing contracts. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

The Bank has the following credit related contingencies, commitments and other capital commitments:

	2012 AED '000	*2011 AED '000*
Contingent liabilities		
Letters of credit	**1,906,850**	1,666,121
Letters of guarantee	**8,584,386**	9,003,727
Acceptances	**419,196**	439,322
	10,910,432	11,109,170
Commitments		
Undrawn facilities commitments	**705,812**	1,293,858
Investment securities	**-**	70,700
Future capital expenditure	**256,159**	345,750
Investment and development properties	**1,399,948**	1,559,443
	2,361,919	3,269,751
	13,272,351	14,378,921

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For Shari'a complaint alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to the receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

The table below shows the fair values of Shari'a compliant alternatives of derivative financial instruments, together with the notional amounts analysed by term of maturity. The notional amount is based on the amount of the underlying transaction, reference rate or index and is the basis upon which changes in the value of transactions are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of the market risk nor credit risk.

31 December 2012: Notional amount by term to maturity

	Negative fair value AED '000	*Notional amount AED '000*	*Less than 3 months AED '000*	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*
Shari'a compliant alternatives of swap (note 28)	**28,542**	**1,343,309**	**789,867**	**95,180**	**458,262**	**-**

31 December 2011: Notional amount by term to maturity

	Negative fair value AED '000	*Notional amount AED '000*	*Less than 3 months AED '000*	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*
Shari'a compliant alternatives of swap (note 28)	19,578	1,382,631	631,583	254,298	496,750	-

39 ZAKAT

The Bank's Articles of Association do not authorise management to pay Zakat directly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 151,214 thousand (2011: AED 139,343 thousand) and accordingly, Zakat is estimated at AED 0.06395 (2011: AED 0.05893) per outstanding share.

40 CASH AND CASH EQUIVALENTS

	2012 *AED '000*	*2011* *AED '000*
Cash and balances with central banks, short term	**8,179,152**	6,647,445
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**4,097,185**	2,331,413
Murabaha and mudaraba with financial institutions, short term	**8,513,276**	3,955,808
Due to financial institutions, short term	**(3,133,893)**	(1,542,202)
	17,655,720	11,392,464

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

	2012 *AED '000*	*2011* *AED '000*
Transfer from development properties to investment properties (note 23)	**131,103**	93,439
Transfer from other assets to investment properties (note 22)	**37,300**	66,027
Transfer from investment properties to property and equipment (note 25)	**-**	188,135
Transfer from other assets to property and equipment (note 25)	**-**	37,574
Surplus on revaluation on land (note 25)	**-**	13,761

41 RELATED PARTY TRANSACTIONS

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

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the year has ranged from 0% to 9% (2011: 0% to 9.5% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the year have ranged from 0% to2.3% per annum (2011: 0% to 6% per annum).

Fees and commissions earned on transactions with related parties during the year was 1.5% per annum (2011: 2.03% per annum).

41 RELATED PARTY TRANSACTIONS continued

During the year, significant transactions with related parties included in the consolidated income statement were as follows:

	Major shareholder AED '000	*Directors AED '000*	*Associates AED '000*	*Others AED '000*	*Total AED '000*
31 December 2012					
Income from murabaha, mudaraba and wakala with financial institutions	**-**	**-**	**2,231**	**-**	**2,231**
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	**88,475**	**588**	**-**	**166,522**	**255,585**
Fees and commission income, net		**-**	**-**	**1,000**	**1,000**
Operating expenses	**-**	**342**	**-**	**-**	**342**
Distribution to depositors and sukuk holders	**75**	**40**	**257**	**541**	**913**
31 December 2011					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	2,935	-	2,935
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	110,340	341	-	165,487	276,168
Investment income	5,973	-	-	-	5,973
Fees and commission income, net	11,410	-	-	9,452	20,862
Operating expenses	-	450	-	-	450
Distribution to depositors and sukuk holders	75	48	526	325	974

The related party balances included in the consolidated statement of financial position were as follows:

	Major shareholder AED '000	*Directors AED '000*	*Associates AED '000*	*Others AED '000*	*Total AED '000*
31 December 2012					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**1,476,250**	**-**	**1,476,250**
Murabaha, mudaraba, ijara and other Islamic financing	**2,356,267**	**10,870**	**-**	**3,140,901**	**5,508,038**
Other assets	**-**	**-**	**1,107**	**183,625**	**184,732**
	2,356,267	**10,870**	**1,477,357**	**3,324,526**	**7,169,020**
Due to financial institutions	**-**	**-**	**4,155**	**-**	**4,155**
Depositors' accounts	**27,907**	**8,817**	**28,382**	**91,633**	**156,739**
Other liabilities	**4**	**2**	**200**	**32**	**238**
	27,911	**8,819**	**32,737**	**91,665**	**161,132**
Undrawn facilities commitments	**-**	**-**	**-**	**83**	**83**

41 RELATED PARTY TRANSACTIONS continued

	Major shareholder AED '000	*Directors AED '000*	*Associates AED '000*	*Others AED '000*	*Total AED '000*
31 December 2011					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	927,919	-	927,919
Murabaha, mudaraba, ijara and other Islamic financing	2,432,231	11,476	-	2,899,814	5,343,521
Other assets	-	-	3,103	183,625	186,728
	2,432,231	11,476	931,022	3,083,439	6,458,168
Due to financial institutions	-	-	3,192	-	3,192
Depositors' accounts	15,966	7,797	35,236	75,218	134,217
Other liabilities	4	-	46	1,563	1,613
	15,970	7,797	38,474	76,781	139,022
Undrawn facilities commitments	-	-	-	1,517	1,517

The Bank and its major shareholder jointly own a controlling stake in National Bank for Development, Egypt ("NBD") and have a formal joint control arrangement for their investment in NBD (note 21).

Compensation of key management personnel

The compensation of key management personnel during the year was as follows:

	2012 AED '000	*2011 AED '000*
Salaries and other benefits	**28,714**	29,936
Employees' end of service benefits	**2,892**	3,319
	31,606	33,255

In accordance with the Ministry of Economy and Commerce interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration is recognised in the consolidated statement of comprehensive income.

Board of Directors remuneration for the year ended 31 December 2012 amounting to AED 4,200 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2012, AED 4,200 thousand was paid to Board of Directors pertaining to the year ended 31 December 2011 after the approval by the shareholders in the Annual General Assembly held on 4 April 2012.

42 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision makers of the Bank in order to allocate resources to the segment and to assess its performance. Information reported to the chief operating decision makers for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to the different markets.

Retail banking - Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahat, Ijara, Islamic covered card and funds transfer facilities and trade finance facilities.

Wholesale banking – Principally handling financing and other credit facilities and deposits and current accounts for corporate and institutional customers.

Private banking - Principally handling financing and other credit facilities, deposits and current accounts for high net worth individual customers.

Capital markets – Principally handling money market brokerage, trading and treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

Real estate – Subsidiary of the Bank handling the acquisition, selling, development and leasing including both land and buildings, management and resale of properties and all associated activities.

Other operations - Other operations comprises mainly of Head Office, foreign branches and subsidiaries other than above categories including unallocated costs.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Business segments information for the year ended 31 December 2012 were as follows:

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues, net	2,280,058	960,845	223,236	133,144	(45,301)	13,634	3,565,616
Operating expenses excluding provision for impairment, net	(1,027,753)	(212,067)	(96,900)	(61,230)	(69,891)	(94,219)	(1,562,060)
Operating profit (margin)	1,252,305	748,778	126,336	71,914	(115,192)	(80,585)	2,003,556
Provision for impairment, net	(177,069)	(290,900)	(143,123)	-	(190,013)	(1,219)	(802,324)
Profit (loss) for the year	1,075,236	457,878	(16,787)	71,914	(305,205)	(81,804)	1,201,232
Non-controlling interest	-	-	-	(288)	-	(1,013)	(1,301)
Profit (loss) for the year attributable to equity holders of the Bank	1,075,236	457,878	(16,787)	71,626	(305,205)	(82,817)	1,199,931
Assets							
Segmental assets	27,599,264	19,719,830	6,172,109	28,175,192	2,558,836	1,439,324	85,664,555
Liabilities							
Segmental liabilities	31,503,306	16,027,737	6,812,609	17,929,342	282,969	456,710	73,012,673

42 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2011 were as follows:

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues, net	2,191,820	869,274	231,159	127,140	143	6,279	3,425,815
Operating expenses excluding provision for impairment, net	(967,328)	(193,028)	(86,476)	(62,529)	(78,199)	(62,094)	(1,449,654)
Operating profit (margin)	1,224,492	676,246	144,683	64,611	(78,056)	(55,815)	1,976,161
Provision for impairment, net	(240,844)	(155,314)	(228,854)	-	(196,058)	-	(821,070)
Profit (loss) for the year	983,648	520,932	(84,171)	64,611	(274,114)	(55,815)	1,155,091
Non-controlling interest	-	-	-	(122)	-	-	(122)
Profit (loss) for the year attributable to equity holders of the Bank	983,648	520,932	(84,171)	64,489	(274,114)	(55,815)	1,154,969
Assets							
Segmental assets	25,785,489	18,863,772	6,121,370	19,941,941	2,715,080	907,414	74,335,066
Liabilities							
Segmental liabilities	25,267,760	17,015,481	6,520,916	16,294,716	278,126	387,000	65,763,999

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
2012							
External revenues, net	2,280,522	1,048,986	243,514	24,261	(45,301)	13,634	3,565,616
Inter-segment revenues, net	(464)	(88,141)	(20,278)	108,883	-	-	-
Segment revenues, net	**2,280,058**	**960,845**	**223,236**	**133,144**	**(45,301)**	**13,634**	**3,565,616**
2011							
External revenues, net	2,297,527	946,620	273,031	(96,644)	143	5,138	3,425,815
Inter-segment revenues, net	(105,707)	(77,346)	(41,872)	223,784	-	1,141	-
Segment revenues, net	2,191,820	869,274	231,159	127,140	143	6,279	3,425,815

Geographical information

The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

43 RISK MANAGEMENT

43.1 Introduction

Risk is inherent in all of the Group's activities. It is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls in accordance to regulatory requirements and others as defined by the Board. This process of risk management is critical to the Group's continuing profitability, and each individual within the Group is accountable for the risk exposures relating to his responsibilities and for the observance of documented policies and procedures which govern this process. The Group is exposed principally to credit risk, liquidity risk, market risk and operational risk but other risks such as reputational risk, legal risk and the various risks defined by the Basel accord are also monitored and managed.

43.1.1 Risk management governance structure

Based largely on the guidelines provided by the Basel accords the overall governance structure of the group in the area of Risk Management continues to evolve. Changes were made as a natural consequence of the growth and development of the Bank's business that ensured close alignment of the Risk Management function. The key features are as follows:

The Board of Directors ("Board") continues to have overall responsibility for the establishment and oversight of the Bank's risk management framework, as well as for approving the Bank's overall risk appetite, and ensuring that business is conducted within this framework. The Board is the ultimate sanctioning authority.

Group Strategy Execution Committee ("GSEC")
The GSEC is responsible, amongst a number of other duties, for the review and approval of all major exposures and investments, within authorized limits and Board guidelines. The GSEC is appointed by the Board and has been given the delegated authority by the Board to assist the Groups executive management teams execute the Board's strategy and achieve the Group's strategic objectives. The authorities delegated to the GSEC by the Board, as they pertain to the Risk Management Governance function include:

- Reviewing and approving the delegation of approval authority to management in regard to the overall policies and procedures of the Group;
- Approving the authorities delegated to the Group's executives; and
- Approval of significant and high value transactions in regard to credit facilities, acquisitions and divestitures, new business initiatives and proprietary investments within the GSEC's delegation of authority.

Duties and responsibilities of the GSEC are governed by a formally approved charter.

Group Risk Policy Committee ("GRPC")
The GRPC is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following:

- Approving and recommending to the Board when necessary the policies, standards, guidelines and procedures for risk assessment and risk management;
- Reviewing and approving the risk inherent in the business of the Group and the control processes with respect to such risks;
- Reviewing and approving the risk profile and the risk appetite of the Group;
- Reviewing the risk management, compliance and control activities of the Group; and
- Reviewing and approving the Internal Capital Adequacy Assessment Process ("ICAAP") and Basel II implementation.

The GRPC is comprised of three directors, all of which are non-executive directors, in addition to the Chief Executive Officer ("CEO") and the Group Chief Risk Officer ("GCRO") (non-voting member) and is chaired by a highly experienced and qualified subject matter expert, who is neither a director nor an employee of the Group. Duties and responsibilities of the GRPC are governed by a formally approved charter. The GRPC was originally formed during 2010 and has held regular quarterly meetings. during past two years as per its charter.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.1 Risk management governance structure continued

Audit and Governance Committee ("AGC")

The AGC comprises one independent member and two members representing the Board of the Bank. The AGC has overall responsibility to oversee management activities relating to accounting and financial reporting policies and internal controls, auditing practices, and legal and regulatory compliance; to discuss the integrity of the Group's consolidated financial statements and the adequacy and reliability of disclosures to shareholders, to review the qualifications and independence of the internal and external auditors, the performance of internal and external auditors, and to review and recommend to the Board, the corporate governance guidelines applicable to the Group. Duties and responsibilities of the AGC are governed by a formally approved charter.

- The Group Internal Audit Division ("GIAD") reports directly to the AGC, and provides independent validation of the business units' compliance with risk policies and procedures, together with a regular assessment as to the effectiveness and adequacy of the risk management function across the Bank.
- The risk management function is independent of the business divisions and is headed by the GCRO, who reports directly to the CEO.

The Bank realizes the importance of creating and maintaining a strong risk culture throughout the organization. The management of all types of risk is deeply embedded throughout the Bank as a core competency of every staff member. In order to promote this, the Bank places a high degree of importance on clearly written, well distributed and readily accessible policies, procedures and communication of risk issues across the Bank. During the course of 2012 the GRPC approved a number of additional Risk policies aligned to the requirement of the Basel accords.

43.1.2 The Risk Management Group ("RMG")

ADIB Risk Management Group is an independent risk organization that works in close partnership with the business units to support their activities, whilst safeguarding the risk profile of the Bank. The primary objectives of the RMG, headed by the GCRO are:

- Ensure adherence and compliance of individual and portfolio performance to agreed terms and policies;
- Institute prudent control mechanisms (process and systems);
- Approve commercial and consumer financing transactions within its delegated authority;
- Ensure compliance with local legal and regulatory guidelines including those issued by the UAE Central Bank and Basel II; and
- Maintain the primary relationship with local regulators with respect to risk related issues.
- Ensure a robust credit process is maintained in support of all business lines.

Reporting to the GCRO are senior and qualified individuals who manage specific areas of risk expertise, amongst which are the Chief Credit Officer, the Market Risk Head, the Consumer Risk Head, and the Head of Group Risk Architecture. The risk team includes risk specialists that look after risks in Financial Institutions, Business Banking, Private Bank Risk, Operational Risk and Basel accords. Each of these are supported as appropriate by individuals and systems. The responsibilities of the RMG extend across all the business units of the bank in all of the geographies in which the bank operates.

The "Asset Recovery Management Unit" formed in 2010, has continued its function during the course of 2012 with a strengthened team of recovery specialists with considerable experience and a proven track record. This is a specialized unit specifically formed to manage corporate and private Bank relationships that are impaired and experiencing difficulties in meeting their obligations to the Bank.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.2 The Risk Management Group ("RMG") continued

Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")

On 27 November 2009, the Central Bank of UAE published Circular 27/2009 with regard to Basel II implementation and submission of an annual ICAAP report. ICAAP reports have been prepared and submitted to the UAE CB within the deadline for the past three years. The Basel II FIRB implementation program initiated in the 2nd quarter of 2010, under the leadership of a dedicated Basel II Program Manager and the team has continued as per plan during the course of 2012. Given the growth and development of the bank both locally in the UAE and overseas, the implementation project will continue into 2013 as approved by the GRPC during the fourth quarter of 2012. This again clearly demonstrates the Bank's total commitment to full compliance with the requirements of the circular. This program, apart from meeting the requirements of the regulator, continues to materially enhance and strengthen the risk management capability of the Bank.

Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process is focused on planning, acquiring, and directing the flow of funds through the organisation. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

Credit Committee

All the business proposals of clients are approved through a credit committee that has been delegated approval authority by the GSEC. The Credit Committee approves all the funded and non-funded transactions within limits as delegated by the Board. The committee consists of designated credit officers and senior credit officers appointed following a rigorous process and finally approved by the CEO. The approval process and the authorities vested with the committee members are well defined in the Bank Credit Policy & Procedures Manual. The policy manual enumerates the various requirements and procedures to be followed in bringing a relationship to the Bank and assessment of the risks involved.

43.1.3 Risk measurement and reporting systems

In order to effectively monitor and control risks, the Policy and Portfolio Management Unit and the Credit Administration units within the risk organization is tasked, in close partnership with the relevant business units, with the documentation and communication of credit and risk related policies, the maintenance and adherence of delegated credit approval authorities, and the monitoring and general adherence to risk related policies by the business units. Within the ambit of portfolio management, specific responsibilities include:

- Preparing portfolio reports across a diverse range of indicators such as portfolio concentrations by geography, industry type, product, risk rating etc. which are used to analyse and monitor overall portfolio quality;
- Monitoring the integrity and consistency of data, including risk ratings, migration, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Setting and advising the values of input parameters to be used for the calculation of expected loss and economic capital requirements;
- Consolidation and consolidation of portfolio management data and reports for use by Executive Management and the Board; and
- The establishment and management of early warning tools to identify emerging risk problems.

On a monthly basis detailed reporting of industry, customer and geographic risks takes place and assessed against the risk profile and overall risk appetite of the Bank. Similar information is additionally reviewed quarterly by the GRPC. Senior management assesses the appropriateness of the provision for credit losses on a monthly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Bank actively uses collateral to reduce its credit risks.

43 RISK MANAGEMENT continued

43.1 Introduction continued

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

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

Details of the composition of the financing portfolio are provided in notes 18 and 19.

43.1.5 Treasury
Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

43.1.6 Group Internal Audit
Risk management processes throughout the Bank are reviewed periodically by the internal audit function that reviews both the adequacy of the procedures and the Bank's compliance with the procedures. Group Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the AGC. The Head of Group Internal Audit has direct reporting lines to the AGC in securing his independence and objectivity in all audit engagements undertaken within the Bank.

43.2 Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank controls credit risk by the use of a focused target market which defines who the Bank is prepared to deal with from a risk profile perspective, the use of Risk Acceptance Criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty. These critical tools are used in conjunction with close monitoring of credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of all counter-parties. In addition to monitoring credit limits, the Bank 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 limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

All commercial credit risk exposures are risk rated using Moody's Risk Analyst risk rating system, recognized as an industry wide standard. This platform supports a number of different rating models for various businesses which are now well embedded. Facility Risk Ratings are also applied. Consumer exposures are rated using a pool concept as required by Basel II.

Credit-related commitments risks
The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks as financing and these are mitigated by the same control processes and policies.

43 RISK MANAGEMENT continued

43.2 Credit risk continued

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

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	***Gross maximum exposure 2012 AED '000***	*Gross maximum exposure 2011 AED '000*
Balances and wakala deposits with Islamic banks and other financial institutions	16	**4,121,480**	2,515,371
Murabaha and mudaraba with financial institutions	17	**9,884,748**	5,346,312
Murabaha and other Islamic financing	18	**25,948,237**	25,582,698
Ijara financing	19	**28,346,207**	26,258,849
Investments		**3,985,324**	1,364,811
Other assets		**456,730**	465,368
		72,742,726	61,533,409
Contingent liabilities	37	**10,910,432**	11,109,170
Commitments		**705,812**	1,293,858
Total		**11,616,244**	12,403,028
Total credit risk exposure		**84,358,970**	73,936,437

43.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2012 was AED 5,730,125 thousand (2011: AED 5,280,107 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

The distribution of the Group's financial assets by geographic region is as follows:

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	*Murabaha and mudaraba with financial institutions AED '000*	*Murabaha and other Islamic financing AED '000*	*Ijara financing AED '000*	*Investments AED '000*	*Other assets AED '000*	*Total AED' 000*
31 December 2012							
UAE	**2,095,095**	**9,232,098**	**24,618,806**	**27,842,569**	**2,507,844**	**453,898**	**66,750,310**
Middle East	**382,930**	**228,537**	**908,846**	**10,444**	**1,157,341**	**1,933**	**2,690,031**
Europe	**97,353**	**283,595**	**353,477**	**-**	**-**	**899**	**735,324**
Others	**1,546,102**	**140,518**	**67,108**	**493,194**	**320,139**	**-**	**2,567,061**
Financial assets subject to credit risk	**4,121,480**	**9,884,748**	**25,948,237**	**28,346,207**	**3,985,324**	**456,730**	**72,742,726**
31 December 2011							
UAE	1,504,836	4,410,811	24,427,314	25,439,128	903,553	465,368	57,151,010
Middle East	5,449	229,943	759,202	15,670	323,636	-	1,333,900
Europe	35,874	548,322	363,382	-	-	-	947,578
Others	969,212	157,236	32,800	804,051	137,622	-	2,100,921
Financial assets subject to credit risk	2,515,371	5,346,312	25,582,698	26,258,849	1,364,811	465,368	61,533,409

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.2 Credit risk concentration continued
The distribution of the Group's financial assets by industry sector is as follows:

	2012 *AED '000*	*2011* *AED '000*
Government	**2,179,947**	661,862
Public sector	**2,604,207**	2,502,529
Financial institutions	**15,616,958**	9,276,295
Trading and manufacturing	**3,786,461**	3,727,551
Construction and real estate	**6,703,901**	6,167,035
Energy	**452,164**	484,177
Personal	**32,395,875**	30,986,641
Others	**9,003,213**	7,727,319
Financial assets subject to credit risk	**72,742,726**	61,533,409

43.2.3 Impairment assessment
The main consideration for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment losses and collective impairment provisions on financing assets.

Individually assessed impairment losses on financing assets
The Bank determines the allowances appropriate for each individually significant customer financing on an individual basis. Items considered when determining impairment loss amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated on monthly basis unless unforeseen circumstances require more careful attention.

Collective impairment provisions on financing assets
Collective impairment provisions are assessed for losses on customer financing that are not individually significant where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

43 RISK MANAGEMENT continued

43.2 Credit risk continued

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

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities,
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities,
- For retail financing, charge over assets, mortgage of properties and assignment of salaries in favour of the Bank.

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

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

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

43.2.5 Credit quality per class of financial assets
The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing based on the Bank's credit rating system.

	Moody's equivalent grade	*2012 AED '000*	*2011 AED '000*
Low risk			
Risk rating class 1	Aaa	**6,828**	4,394
Risk rating classes 2 and 3	Aa1-A3	**8,328,539**	4,446,789
Risk rating class 4	Baa1-Baa3	**5,486,074**	3,635,375
Risk rating classes 5 and 6	Ba1-B3	**43,237,609**	42,434,246
Fair risk			
Risk rating class 7	Caa1-Caa3	**6,658,796**	4,544,056
Impaired			
Risk rating class 8, 9 and 10		**4,582,826**	4,638,370
		68,300,672	59,703,230

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. In accordance with the requirements of Basel II a number of new rating models aligned to specific business segments, were introduced during the course of the year.

Renegotiated murabaha, ijara and other Islamic financings
The total carrying amount of financing whose terms have been renegotiated during the year amounted to AED 2,165,247 thousand (2011: AED 1,322,098 thousand).

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The table shows the maximum exposure to credit risk / price risk for murabaha, mudaraba, ijara, other Islamic financing and investments.

	Balances and wakala deposits with Islamic banks and other financial institutions 31 December		*Murabaha and mudaraba with financial institutions 31 December*		*Murabaha and other Islamic financing 31 December*		*Ijara financing 31 December*		*Investments 31 December*	
	2012 AED '000	*2011 AED '000*	***2012 AED '000***	*2011 AED '000*	***2012 AED '000***	*2011 AED '000*	***2012 AED '000***	*2011 AED '000*	***2012 AED '000***	*2011 AED '000*
Individually impaired										
Substandard	**-**	-	**-**	-	**501,753**	642,672	**1,491,240**	697,991	**12,802**	12,802
Doubtful	**-**	-	**-**	-	**912,231**	1,271,088	**465,076**	579,247	**91,813**	91,813
Loss	**-**	-	**129,811**	129,811	**860,148**	1,080,220	**222,567**	237,341	**-**	-
Gross amount	**-**	-	**129,811**	129,811	**2,274,132**	2,993,980	**2,178,883**	1,514,579	**104,615**	104,615
Provision for individual impairment	**-**	-	**(129,811)**	(129,811)	**(1,588,375)**	(1,829,876)	**(693,655)**	(417,485)	**(81,308)**	(78,041)
	-	-	**-**	-	**685,757**	1,164,104	**1,485,228**	1,097,094	**23,307**	26,574
Past due but not impaired										
Gross amount	**-**	-	**-**	-	**245,282**	220,498	**1,208,602**	1,438,185	**-**	-
Neither past due nor impaired	**4,121,480**	2,515,371	**9,754,937**	5,216,501	**23,428,823**	22,368,220	**24,958,722**	23,306,085	**4,231,841**	1,626,031
Collective allowance for impairment	**-**	-	**-**	-	**(408,085)**	(387,263)	**(407,614)**	(375,582)	**-**	-
Carrying amount	**4,121,480**	2,515,371	**9,754,937**	5,216,501	**23,951,777**	23,365,559	**27,244,938**	25,465,782	**4,255,148**	1,652,605

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired

	Less than 30 days AED '000	*31 -60 days AED '000*	*61 -90 days AED '000*	*More than 90 days AED '000*	*Total AED '000*
2012					
Murabaha and other Islamic financing	**65,571**	**13,945**	**17,733**	**148,033**	**245,282**
Ijara financing	**71,108**	**67,836**	**5,997**	**1,063,661**	**1,208,602**
	136,679	**81,781**	**23,730**	**1,211,694**	**1,453,884**
2011					
Murabaha and other Islamic financing	42,264	16,195	17,203	144,836	220,498
Ijara financing	51,566	38,214	17,066	1,331,339	1,438,185
	93,830	54,409	34,269	1,476,175	1,658,683

More detailed information in respect of the allowance for impairment losses on murabaha and other islamic financing and ijara financing have been disclosed in notes 18 and 19 respectively.

43.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of scenarios, given due consideration to stress factors relating to both the market in general and specifically to the Bank.

The high quality of the asset portfolio ensure its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.1 Liquidity risk management process
The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or when financing are provided to customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

43.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities
The table below summarises the maturity profile of the Group’s financial assets and liabilities at reporting date based on contractual maturities.

	Less than 3 months AED ‘000	*3 months to 1 year AED ‘000*	*1 year to 5 years AED ‘000*	*Over 5 years AED ‘000*	*Total AED ‘000*
31 December 2012					
ASSETS					
Cash and balances with central banks	**8,179,152**	**3,107,751**	**-**	**-**	**11,286,903**
Balances and wakala deposits with Islamic banks and other financial institutions	**4,097,185**	**24,295**	**-**	**-**	**4,121,480**
Murabaha and mudaraba with financial institutions	**8,513,276**	**1,026,933**	**214,728**	**-**	**9,754,937**
Murabaha and other Islamic financing	**1,743,997**	**5,515,514**	**11,947,302**	**4,744,964**	**23,951,777**
Ijara financing	**771,424**	**2,604,297**	**12,880,993**	**10,988,224**	**27,244,938**
Investments	**-**	**1,447,655**	**1,331,256**	**1,476,237**	**4,255,148**
Investment in associates	**-**	**-**	**-**	**766,025**	**766,025**
Other assets	**326,709**	**234,534**	**17,774**	**7,629**	**586,646**
Financial assets	**23,631,743**	**13,960,979**	**26,392,053**	**17,983,079**	**81,967,854**
Non-financial assets					**3,696,701**
Total assets					**85,664,555**
LIABILITIES					
Due to financial institutions	**3,133,893**	**-**	**-**	**-**	**3,133,893**
Depositors' accounts	**54,706,775**	**4,448,171**	**2,171,201**	**-**	**61,326,147**
Other liabilities	**997,015**	**429,541**	**447,767**	**-**	**1,874,323**
Tier 2 Wakala capital	**-**	**-**	**2,207,408**	**-**	**2,207,408**
Sukuk financing instruments	**-**	**-**	**4,470,902**	**-**	**4,470,902**
Total liabilities	**58,837,683**	**4,877,712**	**9,297,278**	**-**	**73,012,673**

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2011					
ASSETS					
Cash and balances with central banks	6,647,445	4,559,700	-	-	11,207,145
Balances and wakala deposits with Islamic banks and other financial institutions	2,331,413	183,958	-	-	2,515,371
Murabaha and mudaraba with financial institutions	3,955,808	206,018	819,683	234,992	5,216,501
Murabaha and other Islamic financing	3,877,328	4,476,853	11,544,136	3,467,242	23,365,559
Ijara financing	1,693,387	2,947,464	12,582,135	8,242,796	25,465,782
Investments	848,985	73,827	729,793	-	1,652,605
Investment in associates	-	-	-	851,503	851,503
Other assets	66,574	227,625	105,642	5,649	405,490
Financial assets	19,420,940	12,675,445	25,781,389	12,802,182	70,679,956
Non-financial assets					3,655,110
Total assets					74,335,066
LIABILITIES					
Due to financial institutions	1,542,202	389,224	-	-	1,931,426
Depositors' accounts	50,285,426	4,411,403	473,454	1,500	55,171,783
Other liabilities	827,788	588,768	446,201	-	1,862,757
Tier 2 Wakala capital	-	-	2,207,408	-	2,207,408
Sukuk financing instruments	-	-	4,590,625	-	4,590,625
Total liabilities	52,655,416	5,389,395	7,717,688	1,500	65,763,999

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

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
31 December 2012					
LIABILITIES					
Due to financial institutions	**3,134,500**	**-**	**-**	**-**	**3,134,500**
Depositors' accounts	**54,805,856**	**4,475,582**	**2,268,287**	**-**	**61,549,725**
Other liabilities	**997,015**	**429,541**	**447,767**	**-**	**1,874,323**
Tier 2 Wakala capital	**-**	**-**	**2,665,445**	**-**	**2,665,445**
Sukuk financing instruments	**-**	**-**	**5,030,731**	**-**	**5,030,731**
Total liabilities	**58,937,371**	**4,905,123**	**10,412,230**	**-**	**74,254,724**
31 December 2011					
LIABILITIES					
Due to financial institutions	1,542,955	390,035	-	-	1,932,990
Depositors' accounts	50,320,410	4,445,331	486,957	1,957	55,254,655
Other liabilities	827,788	588,768	446,201	-	1,862,757
Tier 2 Wakala capital	-	-	2,764,779	-	2,764,779
Sukuk financing instruments	-	-	5,336,098	-	5,336,098
Total liabilities	52,691,153	5,424,134	9,034,035	1,957	67,151,279

The disclosed financial instruments in the above table are the gross undiscounted cash flows.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months AED '000	*3 months to 1 year AED '000*	*1 year to 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
2012					
Contingent liabilities	**9,044,836**	**1,445,828**	**419,768**	**-**	**10,910,432**
Commitments	**198,216**	**350,257**	**1,107,634**	**-**	**1,656,107**
Total	**9,243,052**	**1,796,085**	**1,527,402**	**-**	**12,566,539**
2011					
Contingent liabilities	8,605,755	2,082,969	417,300	3,146	11,109,170
Commitments	62,585	152,789	1,760,519	-	1,975,893
Total	8,668,340	2,235,758	2,177,819	3,146	13,085,063

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

43.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limit to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management.
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary instrument is the rate that, when used in present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating instrument or an instrument carried at fair value.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

	Increase in basis points 2012	***Sensitivity of profit on financial assets and liabilities AED '000***	*Increase in basis points 2011*	*Sensitivity of profit on financial assets and liabilities AED '000*
Currency				
AED	**50**	**89,524**	50	71,487
USD	**50**	**10,761**	50	(28,050)
Euro	**50**	**1,141**	50	516
Other currencies	**50**	**1,388**	50	936

43.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Group was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on investments carried at fair value through other comprehensive income - equity instruments and investment in associates and joint venture).

	% Increase currency rates	*Effect on net profit AED '000*	*Effect on equity AED '000*
31 December 2012			
Currency			
USD	**5**	**188,408**	**8,291**
Euro	**5**	**(1,954)**	**1,497**
Other currencies	**5**	**17,332**	**34,962**
31 December 2011			
Currency			
USD	5	(116,547)	8,212
Euro	5	(3,216)	1,821
Other currencies	5	8,015	35,154

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk

The table below shows the Group's exposure to foreign currencies.

	AED *AED '000*	*USD* *AED '000*	*Euro* *AED '000*	*GBP* *AED '000*	*Others* *AED '000*	*Total* *AED '000*
31 December 2012						
Financial assets						
Cash and balances with central banks	**10,933,354**	**317,626**	**-**	**1,191**	**34,732**	**11,286,903**
Balances and wakala deposits with Islamic banks and other financial institutions	**1,081,407**	**2,650,559**	**27,308**	**124,088**	**238,118**	**4,121,480**
Murabaha and mudaraba with financial institutions	**-**	**9,102,416**	**266,627**	**307,787**	**78,107**	**9,754,937**
Murabaha and other Islamic financing	**21,502,415**	**2,254,384**	**88,408**	**945**	**105,625**	**23,951,777**
Ijara financing	**22,027,838**	**5,217,100**	**-**	**-**	**-**	**27,244,938**
Investments	**792,368**	**3,363,546**	**104**	**74,674**	**24,456**	**4,255,148**
Investment in associates	**133,640**	**-**	**29,827**	**-**	**602,558**	**766,025**
Other assets	**303,797**	**278,916**	**(10,826)**	**(288)**	**15,047**	**586,646**
	56,774,819	**23,184,547**	**401,448**	**508,397**	**1,098,643**	**81,967,854**
Financial liabilities						
Due to financial institutions	**1,031,526**	**1,796,708**	**42,357**	**223,430**	**39,872**	**3,133,893**
Depositors' accounts	**48,308,027**	**12,553,917**	**296,343**	**128,134**	**39,726**	**61,326,147**
Other liabilities	**1,481,383**	**305,536**	**71,998**	**53**	**15,353**	**1,874,323**
Tier 2 wakala capital	**2,207,408**	**-**	**-**	**-**	**-**	**2,207,408**
Sukuk financing instruments	**-**	**4,470,902**	**-**	**-**	**-**	**4,470,902**
	53,028,344	**19,127,063**	**410,698**	**351,617**	**94,951**	**73,012,673**
31 December 2011						
Financial assets						
Cash and balances with central banks	10,926,829	279,875	170	27	244	11,207,145
Balances and wakala deposits with Islamic banks and other financial institutions	1,504,400	957,325	32,746	2,764	18,136	2,515,371
Murabaha and mudaraba with financial institutions	1,500,731	2,678,306	652,644	215,069	169,751	5,216,501
Murabaha and other Islamic financing	20,920,206	2,357,697	86,840	815	1	23,365,559
Ijara financing	21,642,791	3,810,527	-	-	12,464	25,465,782
Investments	734,923	899,591	102	-	17,989	1,652,605
Investment in associates	127,633	-	36,312	-	687,558	851,503
Other assets	(916,834)	1,347,538	1,740	-	(26,954)	405,490
	56,440,679	12,330,859	810,554	218,675	879,189	70,679,956
Financial liabilities						
Due to financial institutions	858,091	466,696	411,827	182,582	12,230	1,931,426
Depositors' accounts	45,630,631	9,146,904	355,754	35,153	3,341	55,171,783
Other liabilities	1,497,372	293,334	70,882	189	980	1,862,757
Tier 2 wakala capital	2,207,408	-	-	-	-	2,207,408
Sukuk financing instruments	-	4,590,625	-	-	-	4,590,625
	50,193,502	14,497,559	838,463	217,924	16,551	65,763,999

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.3 Equity price risk

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

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

	% Increase in market indices 2012	***Effect on net profit 2012 AED '000***	*%Increase in market indices 2011*	*Effect on net profit 2011 AED '000*
Investments carried at fair value through profit and loss				
Dubai Financial Market	**10**	**-**	10	262

The effect on equity (as a result of a change in the fair value of equity instruments held as investments carried at fair value through other comprehensive income at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	% Increase in market indices 2012	***Effect on equity 2012 AED '000***	*%Increase in market indices 2011*	*Effect on equity 2011 AED '000*
Investments carried at fair value through other comprehensive income				
Others	**10**	**2,200**	10	1,553

43.4.4 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or system.

The Bank is developing and implementing a detailed operational risk framework in accordance with Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units across different functions of the Bank involved in performing various operational risk management tasks. The Operational Risk Management Framework ensures that operational risks within the Bank are properly identified, monitored, reported and actively managed. Key elements of the framework include process mapping, management of an operational loss database, key risk indicators, regular business unit level self assessment, risk analysis and risk management reporting.

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.4 Operational risk continued

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operational risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being actively identified, monitored and managed within their respective business units. The day-to-day operational risk is managed also through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedures to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning, which is regularly assessed and tested.

43.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Central Bank of the UAE vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2011: 12%) at all times in which Tier 1 capital should not be less than 8% (2011: 8%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, retained earnings, translation reserve, non-controlling interest and Tier 1 sukuks after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as investments carried at fair value through other comprehensive income, gains or losses arising on translation of foreign operations and unrealised gains or losses arising on Sharia’a compliant financial instruments designated as cashflow hedges.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or to adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The Central Bank of the U.A.E vide its notice 27/2009 dated 17 November 2009, requires all the banks operating in the U.A.E. to implement Standardised approach of Basel II. For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2012.

43 RISK MANAGEMENT continued

43.5 Capital management continued

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2012 and 2011. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel II	
	2012	*2011*
	AED '000	*AED '000*
Tier 1 capital		
Share capital	**2,364,706**	2,364,706
Legal reserve	**1,756,679**	1,755,894
General reserve	**739,030**	585,921
Credit risk reserve	**400,000**	-
Retained earnings	**1,189,511**	1,311,406
Proposed dividends	**600,616**	577,546
Proposed dividends to charity	**4,450**	1,028
Foreign currency translation reserve	**(73,350)**	13,565
Tier 1 sukuk	**5,629,165**	2,000,000
Non-controlling interest	**53,775**	2,609
	12,664,582	8,612,675
Deductions for Tier 1 capital	**(383,013)**	(425,752)
Total Tier 1	**12,281,569**	8,186,923
Tier 2 capital		
Tier 2 wakala capital	**1,765,926**	2,207,408
Cumulative changes in fair value	**(155,700)**	(184,608)
Collective impairment provision for financing assets	**764,061**	757,312
	2,374,287	2,780,112
Deductions for Tier 2 capital	**(383,013)**	(425,751)
Total Tier 2	**1,991,274**	2,354,361
Total capital base	**14,272,843**	10,541,284
Risk weighted assets		
Credit risk	**61,124,859**	56,137,854
Market risk	**1,739,470**	1,240,708
Operational risk	**3,758,370**	3,247,006
Total risk weighted assets	**66,622,699**	60,625,568
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**21.42%**	17.39%
Tier 1 capital expressed as a percentage of total risk weighted assets	**18.43%**	13.50%

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value
Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income, the impact of change in fair valuation from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

Unquoted investments – at fair value
The consolidated financial statements include investments in unquoted funds and private equities which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment in associates and joint venture (note 21), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

Fair value of investments - at amortised cost

	Carrying value 2012 AED '000	***Fair value 2012 AED '000***	*Carrying value 2011 AED '000*	*Fair value 2011 AED '000*
Investments carried at amortised cost - sukuk (note 20)	**2,788,327**	**2,881,764**	440,409	421,525

Fair value measurement recognized in the consolidated statement of financial position
The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	Level 1 *AED '000*	*Level 2* *AED '000*	*Level 3* *AED '000*	*Total* *AED '000*
31 December 2012				
Financial assets				
Investments carried at fair value through profit and loss				
Sukuk	**1,115,689**	-	-	**1,115,689**
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	**22,955**	-	-	**22,955**
Unquoted investments				
Funds	-	-	**91,797**	**91,797**
Private equities	-	-	**236,380**	**236,380**
	-	-	**328,177**	**328,177**
	22,955	-	**328,177**	**351,132**
Financial liabilities				
Shari'a compliant alternatives of swap (note 38)	-	**28,542**	-	**28,542**
31 December 2011				
Financial assets				
Investments carried at fair value through profit and loss				
Equities	2,625	-	-	2,625
Sukuk	846,361	-	-	846,361
	848,986	-	-	848,986
Investments carried at fair value through other comprehensive income				
Quoted investments				
Equities	16,454	-	-	16,454
Unquoted investments				
Funds	-	-	174,723	174,723
Private equities	-	-	172,033	172,033
	-	-	346,756	346,756
	16,454	-	346,756	363,210
Financial liabilities				
Shari'a compliant alternatives of swap (note 38)	-	19,578	-	19,578

There were no transfers between level 1, 2 and 3 during the current year and in the prior year.

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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

	2012	*2011*
	AED '000	*AED '000*
At 1 January	**346,756**	416,659
Transition adjustment on adoption of IFRS 9	**-**	27,493
Net purchases (disposals)	**37,649**	(32,221)
Settlement	**(83,212)**	-
Gain (loss) recorded in equity	**26,984**	(65,175)
At 31 December	**328,177**	346,756

45 BUSINESS COMBINATION – ACQUISITON OF SAUDI INSTALLMENT HOUSE

Effective 11 January 2012, the Group acquired 51% equity stake in Saudi Installment House, a limited liability company incorporated in Saudi Arabia ("the Company") and engaged in the business of cash and installment sales of wholesale and retail segment. The Group has paid a consideration of AED 54.8 million. The acquisition provides opportunities for the Bank to grow its business and create one of the affluent businesses in the Kingdom of Saudi Arabia. Non-controlling interest has been measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets.

The fair value of the identifiable assets and liabilities of the Company as at the acquisition date was as follows:

	Recognised on acquisition 2012 AED '000
Cash and balances with banks	**60,550**
Murabaha and other Islamic financing	**60,637**
Other assets	**1,321**
Property and equipment	**493**
Total assets	**123,001**
Other liabilities	**15,459**
Total liabilities	**15,459**
Fair value of net assets – 100%	**107,542**
Consideration for acquisition - cash	**54,846**
Less: fair value of identifiable net assets acquired	**(54,846)**
	-

Non-controlling interest of the Company was recognised at the acquisition date and was measured at cost.