ADIB مصرف أبوظبي الإسلامي

ANNUAL REPORT 2012

The late H.H. Sheikh Zayed bin Sultan Al Nahyan
The first President of the UAE
'Mercy be upon him'

His Highness Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates
Supreme Commander of the UAE Armed Forces

His Highness Sheikh Mohammed Bin Zayed Al Nahyan
Crown Prince of Abu Dhabi
Deputy Supreme Commander of the
UAE Armed Forces

Bank Overview, Mission, Vision and Values

Abu Dhabi Islamic Bank was established in 1997 through Emiri Decree and began commercial operations in 1998. All contracts, operations and transactions are carried out in accordance with Islamic Shari'a principles.

The Bank is a leading regional Islamic financial services group and has a wide distribution network, with 75 branches in the UAE.

Our Mission

To provide Islamic financial solutions for the global community.

Our Vision

To be a top tier Islamic financial services group.

Our Values

- We keep it Simple and Sensible
- We are Transparent
- We work for Mutual Benefit
- We nurture Hospitality & Tolerance
- We are Shari'a inspired

Bank Strategy

The Bank's overall strategy has three pillars:

Build market leadership within the UAE

- The key customer service sectors are Private Banking, Personal Banking, Business Banking and Wholesale Banking, supported by Cards, Transaction Banking, Treasury, Corporate Finance and Investment Banking and Wealth Management.
- ADIB's retail presence will continue to build towards market leadership.
- At the heart of ADIB's customer-centric approach is a Bank-wide focus on customer service excellence.

Create an integrated financial services group

- ADIB continues to create a diversified Islamic financial services model.
- Currently ADIB provides customers access to Real Estate Management (through MPM), Takaful insurance (through Abu Dhabi National Takaful Company) and brokerage (through ADIB Securities) and building its merchant acquiring and foreign exchange business propositions.

Pursue international growth opportunities

- With the growing acceptance of Islamic banking worldwide, ADIB is increasingly turning its attention to replicating its business model through systematic geographic expansion.
- ADIB's international expansion began in Egypt with the acquisition via a joint venture structure of National Bank of Development, followed by the establishment of Iraq, UK, Saudi Arabia operations and will continue with the new operations in Qatar and Sudan.
- ADIB is also in the process of applying for banking licences in a range of other countries.

Financial Highlights

AED 802
(million) Total Provisions

83.5%
Customer Financing to Deposit Ratio

AED 19.3
(billion) Capital Resources

AED 12.7
(billion) Equity

1,201
(million) Net Profit

3,566
(million) Total Revenues

Net Profit for 2012 increased by 4.0% to AED 1,201 million

Total Revenues for 2012 increased by 4.1% to AED 3,566 million

	2012 AED mn	2011 AED mn	2010 AED mn	2009 AED mn	2008 AED mn
Summary Income Statement					
Net Revenue from Funding	**2,905.3**	2,841.2	2,595.7	2,108.6	1,728.5
Fees, Commissions and Foreign Exchange Income	**432.4**	459.4	372.4	237.6	154.6
Investment and Other Revenues	**227.9**	125.2	105.9	174.1	315.5
Total Revenues	3,565.6	3,425.8	3,074.0	2,520.3	2,198.6
Operating Profit (Margin)	**2,003.5**	1,976.2	1,772.8	1,526.8	1,310.7
Credit Provisions and Impairment Charge	**802.3**	821.1	749.2	1,448.8	459.7
Net Profit	1,201.2	1,155.1	1,023.6	78.0	851.1
Summary Balance Sheet	AED bn	AED bn	AED bn	AED bn	AED bn
Total Assets	**85.7**	74.3	75.3	64.1	51.2
Customer Financing	**51.2**	48.8	48.0	40.5	34.2
Customer Deposits	**61.3**	55.2	56.5	48.2	37.5
Financial Ratios					
Customer Financing to Deposit Ratio	**83.48%**	88.51%	84.85%	83.94%	91.18%
Risk asset ratio – Total (CAR, %) – Basel II	**21.42%**	17.39%	16.03%	16.96%	11.64%
Cost Efficiency Ratio	**43.81%**	42.30%	42.30%	39.40%	40.4%

+4.1%

Revenues (AED mn)

2012	3,566
2011	3,426
2010	3,074
2009	2,520
2008	2,199

+1.4%

Operating Profit (Margin) (AED mn)

2012	2,003
2011	1,976
2010	1,773
2009	1,527
2008	1,311

11.2%

Total Customer Deposits (AED mn)

2012	61,326
2011	55,172
2010	56,517
2009	48,220
2008	39,693

4.8%

Total Customer Financing (AED mn)

2012	51,197
2011	48,831
2010	47,953
2009	40,474
2008	34,179

83.5%

Customer Financing to Deposit Ratio

2012	83.48%
2011	88.51%
2010	84.85%
2009	83.94%
2008	86.11%

21.4%

Capital Adequacy Ratio

2012	21.42%
2011	17.39%
2010	16.03%
2009	16.96%
2008	11.64%

Credit Ratings	Long term	Short term	Outlook
Moody's Investors Service	A2	P1	Stable
Fitch Ratings	A+	F1	Stable
RAM Ratings	AAA	P1	Stable

2012 Awards

Franchise awards

Sheikh Khalifa Excellence Award
Gold category

Best Islamic Bank in the World
by Islamic Finance News Magazine

Best Global Islamic Retail Bank
by Islamic Finance News Magazine

Best Islamic Bank in the UAE
(for the third consecutive year)
by Islamic Finance News Magazine

Best Islamic Bank in the UAE
by Euromoney

Best Islamic Bank in the UAE
(for the third consecutive year)
by Global Finance Magazine

Best Islamic Bank in the UAE
(for the third consecutive year)
by EMEA Finance Magazine

Best Overall Bank in the UAE in Customer
Service (for the second consecutive year)
by Ethos Consultancy

Best Call Center in the UAE
by Ethos Consultancy

Award for Excellence in Islamic Banking
by International Alternative
Investment Review

Best Islamic Investment Strategist
of the Year
by Islamic Finance News

Product awards

UAE Deal of the Year for
ADIB Hybrid Tier-1 Sukuk
by Islamic Finance News Magazine

Mudarabah Deal of the Year for
ADIB Hybrid Tier-1 Sukuk
by Islamic Finance News Magazine

Corporate Finance Deal of the
Year for Majid Al Futtaim Sukuk
by Islamic Finance News Magazine

Syndicated Deal of the Year for
Jebel Ali Free Zone Sukuk
by Islamic Finance News Magazine

Syndicated Deal of the Year for
Jebel Ali Free Zone Sukuk
by Euromoney

Best Islamic Bond
by International Financing Review

Best Co-brand Card and Best
Islamic Card at the Smart Card
Awards Middle East

Despite the challenging market conditions, ADIB continued to deliver a sound financial performance through the effective execution of its strategic priorities of customer service excellence with the bank being ranked number 1 in customer service for the second consecutive year.

Group net revenues for 2012 were AED 3.6 billion

The Bank had an extremely successful USD 1 billion Hybrid Tier 1 Capital issue

Internationally, operations in the United Kingdom, Iraq and the Kingdom of Saudi Arabia continued to gain momentum

+11.9%

Total Customers

An increase in total customer numbers by 11.9% to over 500,000; the opening of the 75th branch in the UAE

+4.0%

Net Profit

An increase of 4.0% in net profit to AED 1.2 billion and a number one ranking for customer service in the UAE for the second consecutive year

Dear Shareholders

On behalf of the Board of Directors of Abu Dhabi Islamic Bank (ADIB), I would like to thank our management team and staff for their outstanding efforts in delivering another year of excellent performance. I also would like to thank our esteemed Fatwa and Shari'a Supervisory Board for their industry-leading supervisory role, which has contributed to placing ADIB at the forefront of Islamic banking.

Economic environment in 2012

The global economic environment continued to pose challenges during 2012 as the pace of recovery from the 2008 financial crisis remained slow. Locally and regionally, despite some encouraging signs pointing towards improvement in the major markets of Abu Dhabi and Dubai, the banking sector showed sluggish growth, which manifested in the continued compression of credit spreads and increased competition between banks on all fronts.

Financial performance and business highlights

Despite the challenging conditions, ADIB continued to deliver sound financial results through the effective execution of its strategic vision, with the focus on customers securing the Bank the top ranking in customer service for the second consecutive year. This excellence in customer service continued to be backed by best practice risk management, conservative credit policy and recruitment of world class talent. In 2012, a further important focus was on laying the foundations of the Bank's next phase growth strategy with a pivotal part of this being the extremely-successful USD 1 billion Hybrid Tier 1 Capital issue.

The ADIB Group, which includes both the financial services and real estate businesses, reported net profit of AED 1.2 billion for 2012, an increase of 4% over the previous year. Group net revenues for 2012 were AED 3.6 billion, while aggressive cost management meant that expenses increased by only 8.1% year on year, despite investments in 89 new ATMs and six new branches in the UAE, and the expansion of ADIB's regional and international capabilities.

The performance of the main banking business remained strong as customer numbers went over 500,000 for the first time. Local customer segments were broadened and internationally, operations in the United Kingdom, Iraq and the Kingdom of Saudi Arabia continued to gain momentum, as did the plans to establish new branches in Sudan - opened in December 2012 - and Qatar.

In regard to impairment and credit losses, we remained prudent in classifying our impaired portfolio and bringing the real estate subsidiary's legacy portfolio to account and therefore we continued to take provisions to safeguard the Group and its shareholders from any unforeseen challenges.

Chairman's Statement continued

Other appropriations
As a continuation of our best practice approach to risk management the Board established a new reserve in 2012, the Credit Risk Reserve, via an apportionment of AED 400 million from the Retained Earnings. This reserve is non-distributable and hence serves as an additional buffer to capital.

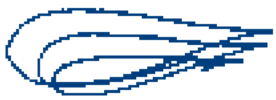
Dividend
I am pleased to report that the board recommended a cash dividend per share of AED 0.254, equivalent to 50% of 2012 net profit.

Human Resources and corporate social responsibility
As part of its commitment to developing the nation's human resources, the Bank had 719 UAE Nationals as staff at year end. In addition to efforts towards enhancing the Emiratization rate and training the National workforce, we have also undertaken a number of initiatives for the benefit of the community at large, such as continuing with our financial education campaign, which provided well-received advice on increasing saving and spending wisely; supporting football in the UAE and participating in key community activities and events.

In conclusion
I extend my sincere appreciation and gratitude to the leaders of the United Arab Emirates, particularly to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi, may Allah protect him; and to His Highness Sheikh Mohamed Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces.

I also thank the Central Bank of the UAE for their continued support of the UAE banking sector in general and ADIB in particular.

Thank you



HE Jawaan Awaidha Suhail Al Khaili
Chairman

The ADIB Group Business Structure

Board of Directors

Financial Services Group

Banking:

Abu Dhabi Islamic Bank
Saudi Installment House

Subsidiaries:

Abu Dhabi Islamic Securities Company LLC
ADIB UK Limited

Associates and Joint Ventures:

National Bank for Development
Abu Dhabi National Takaful Company PJSC
Bosna Bank International D.D

International Branches:

Qatar (QFC)
Iraq
Sudan

Non-Financial Services

Real Estate:

Burooj Properties LLC
MPM Properties LLC

Manpower:

Kawader Services Company

Board of Directors and Chief Executive Officer

HE Jawaan Awaidha Suhail Al Khaili
Chairman

Khaled Abdulla Neamat Khouri
Vice Chairman

Tirad Mahmoud
Chief Executive Officer

Abdulla Bin Aqueeda Al Muhairi
Board Member

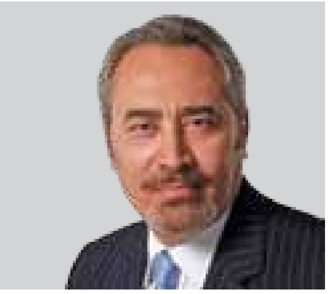
Juma Khamis Mugheer Al Khaili
Board Member

Dr Sami Ali Al Amri
Board Member

Khamis Mohamed Buharoon
Board Member

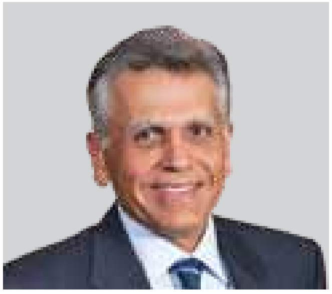
Ragheed Najeeb Shanti
Board Member

Financial Services Executive Management



Tirad Mahmoud
Chief Executive Officer

Mr S Sarup
Global Head of Retail Banking



Mr A Usmani
Global Head of Wholesale Banking

Mr A Abdullah
Head of Strategic Clients and Community Banking

Mr W Al Khazraji
Head of Human Resources, UAE

Dr O Kilani
Global Head of Shari'a

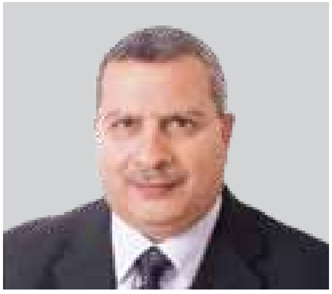
Mr M Husain
Global Head of Risk

Mr M Khan
Global Head of Operations and Technology

Mr A Al Shahi
Head of New Country Expansion

ADIB's Banking and Financial Services management team is vastly experienced and together represents many years of banking expertise gained through academic qualifications and careers with highly-respected financial institutions.

Mr A Moir
Global Head of Strategy and Finance



Mr A Kanan
Global Head of Audit & Risk Review

Mr A Qadir Khanani
Treasurer - UAE & Acting Global Head of Treasury

Mr S Crocker
Global Head of Private Banking

Mr B Ahmed
Global Head of Corporate Governance and Compliance

Dr. A Abrahim
General Legal Counsel, UAE

Ms N Loutfy
Chief Executive Officer and Managing Director, Egypt

Mr N Powar
Global Head of Human Resources

In the UAE, we will continue to focus on our core customer segments to grow our penetration by attracting more customers and cross-selling more products. Our strong capital and liquidity positions uniquely position ADIB as a top-tier UAE bank that continues to grow faster than the market average.

CEO's Report

Our focus during 2012 was on laying the foundations for the next phase of ADIB's growth strategy and, in this regard, our main priorities were to preserve and to raise new capital, and to grow our retail deposit base.

I am proud to report that, despite continued challenges in the markets in which we operate, we maintained a disciplined focus on our priorities in 2012. The result was a year of continued achievement and further recognition of the successful implementation of our strategy.

2012 Priorities

Global and domestic markets continued their slow recovery from the financial crisis. And while we are encouraged by the announcements of an Abu Dhabi Government-led economic recovery plan and by the upturn in certain areas of Dubai's real estate and tourism sectors, it is clear that consumers are still feeling the effects of the prolonged global downturn. In addition, it is noteworthy that during the year, banks continued to seek new areas of growth, including increasingly aggressive cross-border lending into the GCC and Asia.

Notwithstanding this, our focus during 2012 was on laying the foundations for the next phase of ADIB's growth strategy and, in this regard, our main priorities were to preserve and to raise new capital, and to grow our retail deposit base.

Capital

ADIB adopted a multi-pronged approach to building the necessary capital to boost its Tier 1 ratio and thereby to enable the Bank to resume its growth trajectory in 2013. One aspect of this was to focus on capital preservation and optimization for most of 2012, and consequently customer asset growth was restricted. Still, ADIB's net customer financing grew by 4.8% in 2012, outpacing the 2.6% growth in loans and advances across the UAE banking sector for the year.

A parallel thrust saw ADIB become the first bank in the region and the first Islamic Bank world-wide to complete a public, and market-redefining, USD 1 billion hybrid tier 1 capital issue. The issue drew USD 15.5 billion of orders from global investors, reflecting not only the innovation and simplicity of the instrument itself, but also the prospects of ADIB's business, and of the UAE banking sector as a whole. We are proud that this landmark transaction is leading the way in opening new capital raising avenue for the region's banks, both Islamic and conventional.

The success of these capital initiatives saw ADIB's Capital Adequacy ratio reach 21.42% by the end of 2012, with its Tier 1 capital ratio rising to 18.43%. The bank's capital ratios now not only continue to stand above the UAE Central Bank's prescribed minimums of 12% for capital adequacy and 8% for tier 1, but also rank amongst the highest in the banking sector.

Retail deposits

By continuing to focus on deepening customer relationships in retail banking, private banking and wholesale banking, backed by a strong treasury operation, ADIB maintained its position as one of the most liquid banks in the UAE, with Central Bank placements of AED 4.9 billion and our net interbank position at AED 10.8 billion at the end of 2012. Specifically, an emphasis on reducing the cost of funds and deposit concentration saw current and savings accounts reach AED 32.1 billion, while overall deposits increased 11.2% to AED 61.3 billion during the same period.

It is noteworthy that ADIB grew its combined current and savings account balances by 25.7% in 2012, which is materially better than the 9.2% growth in total deposits in the UAE banking sector for the year. As a result, the bank ended the year with a customer financing-to-deposits ratio of 83.5% and an advances-to-stable funds ratio of 75.7%, which is significantly lower than the regulatory threshold of 100%.

I am therefore pleased to report that ADIB now has both the necessary capital and deposits to resume its growth trajectory.

Achievements

Delivering a record net profit

Notwithstanding the overriding focus on laying the foundations of the next phase of our growth, the group was able to post a net profit of AED 1,201.2 million for 2012. It was particularly rewarding that, despite the continued challenging market conditions and an increasing level of regulatory uncertainty, the performance of the main banking business remained strong and net profit for the bank grew by 5.0% to AED 1,495.8 million, from AED 1,425.0 million in 2011.

In addition, a strong focus on efficiency meant that in spite of the costs associated with the expansion in the retail network and our international operations, group operating expenses increased by a below-market average of 8.1% year-on-year. The group cost-to-income ratio was 43.8% for 2012, while the bank's was 41.1% for the year.

Maintained leadership in service excellence

A cornerstone of ADIB's strategy and value proposition is customer service excellence. In this regard I am delighted that we maintained our position as the leading bank for customer service excellence in 2012, being rated number one in the UAE for the second consecutive year.

Strengthening distribution in the UAE

In 2012, the retail banking business expanded beyond its existing market-leading UAE National customer base by placing a greater emphasis on expatriates. This was done in part to mitigate the regulatory deflationary pressure on the UAE National customer segment. This strategy, together with our recognized leadership in customer service, contributed to growth of 11.9% year-on-year in our retail banking customer base to pass the half-a-million milestone.

The year also saw a renewed focus on increasing our range of distribution channels, expanding our branch network and growing our range of retail products and solutions. ADIB opened six new branches in 2012 to reach a total of 75 in the UAE and installed 89 new ATMs to reach 549. The bank now has the third largest retail network in the UAE, and we remain on track to reach 80 branches and over 600 ATMs by early 2013.

Expanding our international franchise

ADIB's regional expansion is making progress. In addition to our joint venture in Egypt, we established business presences in Saudi Arabia, Iraq, Sudan and the United Kingdom and advanced our plans to establish a new branch in Qatar. We fully expect these operations to quickly gain momentum and to make a positive contribution to the group's earnings. Simultaneously, we continue to look at additional markets that display strong growth potential for ADIB.

2012 also saw the sale of ADIB's entire 32.37% stake in BBI Real Estate in Bosnia and Herzegovina. While we are proud to have contributed to the redevelopment of that country by having established one of the leading real estate companies there, a key aspect of ADIB's strategic focus is on building our international financial services capabilities and exiting non-core businesses. In keeping with this strategy, our involvement in the Bosnian financial services sector continues, through our shareholding in Bosna Bank International.

Credit provisions and impairments

We remained prudent in classifying our impaired portfolio and taking provisions and suspending the accrual of profit in line with our 90 days past-due and conservative collateral recognition approach. As a result, we added a further AED 556.2 million in individual provisions and AED 52.8 million in collective provisions during 2012. Net credit provisions now stand at AED 3,098 million (from AED 404 million in 2007), after adjusting for a further AED 516.8 million in write-offs in 2012, with specific credit provisions at AED 2,282 million and collective provisions at AED 816 million. Total net credit provisions now amount to 5.7% of gross customer financing assets and represent a healthy pre-collateral non-performing coverage ratio of 69.6% of the impaired portfolio, net of write-offs. The bank's collective provisions now represent 1.68% of total customer risk-weighted assets and are well above the Central Bank guidelines, which require 1.5% by the end of 2014.

Successfully complementing our prudent approach to the recognition of problem credits is the ongoing work by the two remedial management units established in 2009. These efforts contributed towards a 5.3% decrease in total non-performing accounts in 2012 but, despite this, we retain the view that it is too early to call a meaningful improvement in the credit environment. Furthermore, while we will continue to assist customers in the sustainable restructuring of their financing, we reiterate that those who resist ADIB's efforts to work constructively with them to find ways of honouring their credit obligations will face all available remedies on our part, since it is our duty also to protect both our depositors' and shareholders' rights.

In addition to the credit portfolio, a further AED 190.0 million in impairments was taken against the real estate subsidiary's (Burooj) legacy development and investment portfolio, bringing total impairments related to this business to AED 546.3 million over the past three years as it tracked the downturn in the real estate market.

Other ADIB Group companies

ADIB Securities: Despite the improvement in the local equity market indices, the continued lack of liquidity in the equity markets remains a major concern. I am therefore particularly pleased that ADIB Securities, our stock brokerage subsidiary, continued to perform well, with a net profit of AED 5.7 million in 2012, up 134.4% from the previous year. ADIB Securities has a market share of 8.8% and remains one of the top three brokers in the UAE. It is an integral part of our wealth management proposition, which is focused on enhancing savings, investment and related wealth diversification portfolios of our customers.

Burooj Properties: Bringing the legacy development and investment portfolio to account has been our top priority. All properties and commitments in Burooj's portfolio are regularly subjected to independent review in order to determine the real value of each property with reference to recent market conditions, existing prices and estimates of the net present value of future cash flows. The resultant value is compared to the carrying value of the properties in order to determine the impairments. Our approach to valuing Burooj's portfolio, first adopted in late 2010, resulted in a further AED 190.0 million in impairments in 2012 and a consequent loss of AED 305.2 million, versus a loss of AED 274.1 million in 2011. While there are some welcome signs of recovery in the sector, these have been isolated, and the real estate market in general remains under pressure. Therefore, we believe Burooj will incur further losses in 2013.

Recognition

ADIB's achievements were once again recognized by a broad spectrum of market authorities and commentators. The Bank's continued financial health, systemic importance and the proven strong underlying support that is implicit in being the flagship Islamic bank in the Abu Dhabi Emirate meant that ADIB maintained our credit ratings: A+ (Fitch); A2 (Moody's); and AAA (RAM).

I take great pride in the broader market's view of the bank as an important – and successful - player in its field. Recognition of the enormous strides being made at all levels has seen ADIB, once again, garner awards across multiple fronts. These awards, detailed elsewhere in this annual report, include:

- The Sheikh Khalifa Excellence Award, Gold category. This is the first time a financial institution has won Gold without having first been awarded Silver;
- Best Islamic Bank in the world;
- Best Islamic Bank in the UAE for the third consecutive year;
- Best Global Islamic Retail Bank;
- Best Bank for customer service in the UAE, for the second consecutive year;
- Best Co-branded card, with our national airline partner Etihad, and best covered card;
- Best Islamic Bond, best Sukuk and best Mudarabah deal of the year for our Tier 1 capital issue; and
- Best Straight-through Processing for outgoing payments, by our correspondents.

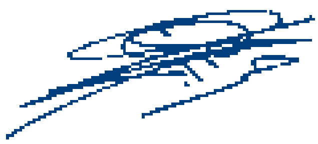
Looking ahead

We fully recognize that the global economic recovery is still fragile and that our region is affected by global events. We are encouraged by the evident global collaboration among regulators and governments in supporting the global recovery, and in our assessment, 2013 will be a year of mixed results.

In the UAE, we will continue to focus on our core customer segments to grow our penetration by attracting more customers and cross-selling more products.

Our strong capital and liquidity positions uniquely position ADIB as a top-tier UAE bank that continues to grow faster than the market average.

There are downside risks in the UAE market due to the increasing competition on credit products, which has already begun to place pressure on credit margins and credit terms. Our response will be to increase the focus on growing our customer portfolio, increasing the retail deposit base, introducing new products and maintaining a superior customer service capability.



Tirad Al Mahmoud
Chief Executive Officer

ADIB مصرف أبوظبي الإسلامي

BEST BANKING SERVICE

ADIB wins Best Customer Service Award for the second year!

We proudly accept the 2011 and 2012 awards for Best Customer Service from Ethos Consultancy, as well as the award for Best Overall Call Center 2012. All our achievements are made possible because of our customers' trust and support. With every award, we strive for new standards of excellence in our services and products. In addition, our growth in branch network and other banking channels allows us to share our services better. Inspired by our promise "banking as it should be", we continue to invest in people and deliver the unique banking experience our customers deserve. We accept these awards with a humbled spirit and deep gratitude.

Banking as it should be. adib.ae

facebook.com/ADIBpage @ADIBTweets

In spite of the challenging environment, Personal Banking continued to grow the Bank's Retail Banking franchise in the UAE by adding over 50,000 customers in the year, thereby crossing the 500,000 customer milestone.

Retail Banking
Personal Banking

The introduction of new regulations relating to Personal Banking, initiated by the Central Bank of the UAE in 2011, continued in 2012. Given ADIB's focus on responsible banking, the Bank approached the regulatory consultations constructively and spearheaded the debt relief discussions for UAE nationals with the regulators and other stakeholders, leading the industry effort to present viable client relief mechanisms to policy makers.

In spite of the challenging environment, Personal Banking continued to grow the Bank's Retail Banking franchise in the UAE by adding over 50,000 customers in the year, thereby crossing the 500,000 customer milestone. While retaining its core focus on UAE Nationals, the business also diversified its customer base by targeting and acquiring more expatriate accounts. In support of this, the network expansion initiatives boosted the UAE network to 75 branches and 535 ATMs during the year.

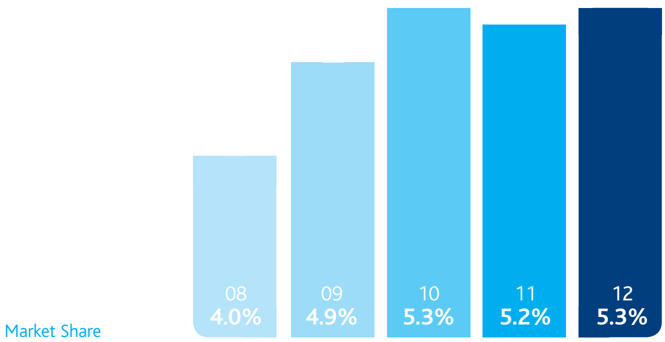
Ongoing investment in improving the service culture and ingraining a customer-centric approach continued to bear fruit as we were named "UAE's Best Bank in Customer Service", for the second consecutive year, at the Ethos Consultancy's 2012 Bank Benchmark Index Awards. ADIB was recognized for the professionalism of its customer service teams and its superior standards in customer service across its various delivery channels. The call centre also improved its customer service ranking to be ranked 1st for customer service in 2012 (up from 4th place in 2011) in the same awards. Other significant accolades won during the year were the 'Best Co-brand Card' and 'Best Islamic Card' at the Smart Card Awards Middle East 2012, for the market-leading ADIB-Etihad Guest Visa Card.

2012 also marked a year of innovation for Personal Banking on the product front:

- ADIB partnered with Visa and Etisalat to launch the UAE's first Islamic telecom cards, providing customers with a unique product that enables them to connect with friends and family whilst also providing a number of additional rewards. The range of Etisalat co-branded cards will help us grow our business with the expatriate community further;
- Introduction of ADIB Instant Finance, a facility that adds finance facilities to the ADIB chip-enabled debit and covered cards. ADIB is the first UAE Islamic bank – and among the first in the world - to offer the quick turnaround installment-based finance product;
- The revamped home mortgage product was re-launched – and ADIB quickly became the market leader in home mortgages; and
- A number of initiatives are also underway to further enhance ADIB's retail presence in the UAE, with joint ventures in the area of money transfers and merchant acquiring (under formation).

The division's international growth strategy also gained momentum in the year: the management takeover of Saudi Installment House was completed, with the intention of making this business the top choice for customers amongst consumer finance companies in the Kingdom of Saudi Arabia; the first branch of ADIB's new United Kingdom operations was opened at One Hyde Park in London to further enhance the services offered to ADIB's priority and private banking customers; and the personal banking product range in Egypt was completed with the launch of covered cards.

Customer Deposits



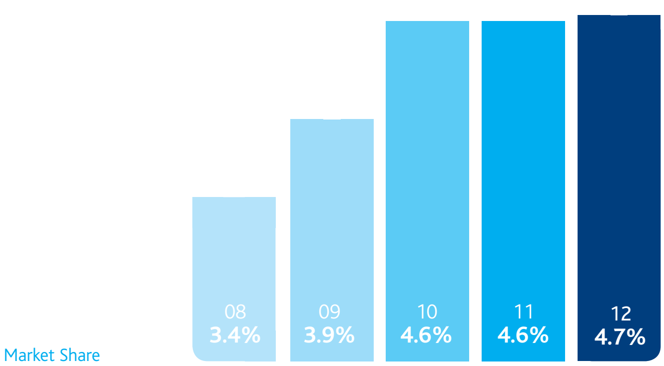
Business Banking

Although 2012 was another subdued year for the economy as a whole, Business Banking maintained its strong growth trajectory. With its one-stop-shop concept and unique go-to-market approach, which include highly-trained Relationship Managers and clear client segmentation, Business Banking is now a recognised player in the SME space.

A world-class platform was rolled out for SMEs, covering free IVR, dedicated call centre, online banking and centralized customer complaint management. A comprehensive credit program, strong data analytics and unique early warning system were the fulcrums of a robust portfolio management approach, resulting in industry-leading low loss norms on total portfolio and funded assets. A business debit card – the first Islamic debit card for businesses- was also launched in the year to further round out the product offering and a new business hub was opened in Riqqa Street in Dubai to service the busy Deira and Bur Dubai areas.

Business Banking will continue to innovate new Islamic products specially geared to this segment and is in the process of establishing further dedicated SME banking centers/ branches in the UAE. It has also partnered with Zawya to launch the SME Portal, the Business Pulse, in first quarter 2013 – an unique online platform earmarked for the SME population in the region.

Customer Financing



Wholesale Banking

Notwithstanding the global economic slowdown and sustained challenges affecting the banking sector globally, together with increased competition in the domestic space, the Wholesale Banking Division turned in a strong performance. The new senior management team refocused its strategy on efficiency and in generating increased returns on existing capital and asset levels.

A key development during the year was the launch of the Emerging Corporates business, targeting customers with annual turnovers of between AED 100 and AED 500 million as this market segment is under-served by the financial sector.

Wholesale Banking also adopted more robust business practices and stronger infrastructure with the implementation of a Risk Weighted Asset pricing model to optimize customer revenue and minimize risk; initiation of sophisticated models to fully reflect cost of capital and data analysis automation for business analytics.

The Transaction Banking proposition maintained its growth trajectory. It achieved this on the back of consistent targeting of domestic cash management mandates in the corporate market with the launch of the eADIB II platform. It continued to deliver high volume deals within the Public Sector; launched ADIB 360 – an integrated approach to retail and corporate products and services; and piloted three new trade finance products - Open Account Murabaha, Availization and Export Finance. Going forward it will continue to enhance eADIB and roll-out competitive domestic and international cash, liquidity and trade products directly integrated with customer ERP systems.

A new Financial Institutions strategy was developed during the year and will be a key focus area in 2013. The aim is to become the correspondent bank of choice for Islamic financial institutions around the world and regional conventional banks in selected markets.

2012 marked a stellar year for Corporate Finance and Investment Banking business unit. It successfully closed landmark transactions on the back of strong origination and execution efforts and played a major role in key Sukuk issuances.

2012 marked a stellar year for Corporate Finance and Investment Banking business unit. It doubled throughput with 11 deals closing during the year. It successfully closed landmark transactions on the back of strong origination and execution efforts and played a major role in Sukuk issuances of large Dubai Government Related Entities. All this culminated in ADIB's topping the 2012 league tables for Islamic loan bookrunners in the UAE and also being amongst the top Sukuk bookrunners in the UAE and GCC. Notable deals/ transactions for the year include:

- USD 1.75 billion: the largest multi-tranche syndicated deal in the UAE 2012, for Dubai Duty Free
- USD 1.2 billion: the largest Islamic structured syndication in the UAE in 2012, for Jafza. Awarded Syndicated Deal of the Year by Islamic Finance News
- USD 175 million: debut Islamic syndicated facility, for Sri Lankan Airlines
- USD 400 million: first issuance by an investment grade privately-owned company in the GCC, for Majid Al Futtaim. Awarded Corporate Finance Deal of the Year by Islamic Finance News
- USD 500 million: first non-investment grade, unsecured Sukuk transaction from the region in 2012, for Emaar

One of the most significant achievements for the year was the support provided to the successful issue of ADIB's Tier 1 sukuk - the world's first Shari'a-compliant hybrid Tier 1 sukuk and the region's first publically-issued perpetual and Tier 1 instrument. This strategic transaction marked a key milestone for the global Islamic finance industry and was a major innovation by an Islamic bank. The USD 1 billion perpetual non-call six-year issue was priced at an expected profit rate of 6.375%, one of the lowest rates achieved for any perpetual instrument by a global bank since the start of the financial crisis. This issue was awarded the Mudarabah Deal of the Year and UAE Deal of the Year by Islamic Finance News.

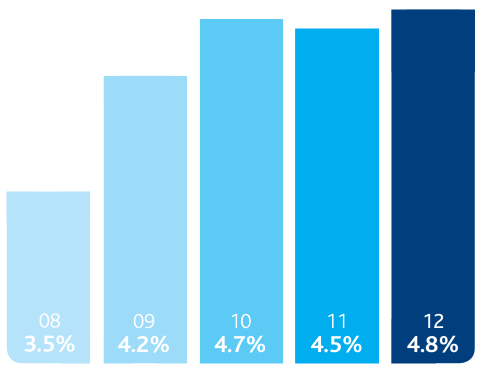
The focus for Wholesale Banking for the year ahead comprises a three pronged approach: increase assets - through customer acquisition (introduce Islamic banking to a new set of customers); target market expansion (primarily in Emerging Corporates); and secondary market asset purchases. The product suite will also be expanded to include selective equity investment.

Private Banking

2012 was a year of laying the foundations for growth for the re-launched Private Bank proposition. The senior management team was further strengthened along with an increase in the client coverage team.

A comprehensive customer needs analysis was undertaken during the year in order to guide strategy further. In addition to the primary requirement of the provision of the ability to leverage their wealth through credit solutions, one of the areas identified out of this was the increasing demand for family business wealth management in the Private Bank portfolio, addressing issues such as the separation of ownership and management of their family businesses and the development of robust succession plans in these entities. As a result of this need, the Wealth Institute, which is designed to educate the heads of families, the next generation and wider family members on these issues thereby safeguarding family wealth for future generations, was established.

Total Assets



Market Share

Private Banking also expanded internationally by opening in Qatar and started hosting clients out of the London branch during the summer. Significantly, it also received approval in principle from the Dubai Financial Services Authority to establish a presence of the Private Office unit in the DIFC, laying the foundation for future growth in the areas of Islamic trusts/waqfs, wealth structuring and succession planning to address the needs highlighted above.

In the area of Wealth Management it was a year of sustained activity with some key launches:

- Three structured notes (two gold and one oil) were issued, thereby following on from the first maturities of the notes booked in previous years all of which were redeemed in-the-money for clients
- Wealth Management Solutions Centre – for clients to plan their wealth and determine their savings needs for education, retirement and other specific objectives
- A Savings Investment Plan – allowing customers to "save for a purpose" in a disciplined manner with exposure to world-class Shari'a compliant mutual funds

The key priority for Private Banking is the on-going education of its customers in the area of financial responsibility and investments and building on the lessons learnt during the financial crisis. With that in mind, a number of client educational seminars were conducted across the regions by Wealth Management and additional world class mutual funds were added to the existing product offering. A significant success during the year was in advising Private Bank clients on the ADIB Tier 1 capital raise, resulting in a significant order book from Private Banking clients.

One of the priorities in the year ahead will be the expansion of the Shari'a compliant investment offering to clients in this division, which will be achieved primarily through increased collaboration with the Bank's Corporate Finance and Investment Banking team.

Treasury

In the year under review, Treasury had to contend with both volatile regional and global markets and a continued low profit rate environment. Despite this, the division grew its customer business by 15% by continuing to provide bespoke solutions to clients, as well as offering regular treasury products such as Sukuks, structured solutions and foreign exchange facilities. The Treasury system was also upgraded in the year to increase efficiency and reduce operational risk, as well as increasing the capacity to accommodate greater number of transactions.

Significant accomplishments during the year were the signing of the first Collateralized Murabaha documentation with an international bank; the finalization of the Malaysian Ringgit Sukuk Program and the support provided to the successful issue of ADIB's Tier 1 Sukuk.

In addition, Treasury also contributed to the standardization of Sukuk structures for wider acceptability in the industry. Through its participation in many primary Sukuk issuances in the region and by being an active player in the Sukuk market, Treasury continued to build its proprietary Sukuk portfolio. Building on these successes, the Sukuk trading platform that was established in late 2011 was actively marketed to the Bank's Private and Priority customer base.

Treasury continued to work closely with the Bank's customers to help them manage their foreign exchange and profit rate exposure. The volume of structured investments continued to grow, indicating greater client acceptance of the solutions jointly developed by Treasury and Wealth Management. Of note is the fact the first maturities of the structured product notes (Oil 1 in July and Gold in October) in the year were redeemed in-the-money by ADIB customers.

Looking ahead, the lower profit rate environment is expected to continue. Notwithstanding this, a strong focus on adding to the bank's Sukuk portfolio and exerting efforts to standardize Sukuk structures across the market for wider acceptability will continue.

Community Banking

ADIB Community Banking, a new Division, was launched in 2012 to address the banking requirements of non-profit organizations and Government and private organizations focused on serving the UAE community. As part of this pioneering business line, which works in tandem with ADIB's social responsibility initiatives, the Bank provided customized banking services to community-oriented entities and charitable institutions.

Community Banking was conceived in consultation with a number of the Bank's existing community-oriented clients in Abu Dhabi and Dubai. The products and services that are offered include current and savings Accounts, appropriate financing solutions, investment management (with the support of Wealth Management), cash management and a wide range of Shari'a compliant products and services.

Operations and Technology

With a continued clear focus on achieving best-in-class operations, the Division increased its focus on the delivery of a high standard of external and internal service quality. To this end the division completed the implementation of the initiatives of the Operations Transformation project - a major efficiency and control driven project initiated in 2011. The implementation covered multiple facets, including: enhanced automation; process simplification; and heightened controls, leading to major process improvements across the Division. Operational control and risk mitigation processes were also enhanced and higher resource productivity and process efficiency were achieved.

The automated solution for Centralised Payment Message Straight Through Processing was implemented in the year, along with the UAE Central Bank initiative for local currency funds transfer automation. STP excellence was recognized as awards were received for best STP rate for outgoing payments from our correspondents Citibank and Commerzbank.

The division was also instrumental in the successful launch of ADIB's international expansion during the year in the United Kingdom, Qatar and Sudan. Complete infrastructure solutions were delivered and implemented in these countries, including project management for infrastructure installation and implementation of support systems necessary for the international operating units.

Going forward the focus will be to transform the UAE based operations and support units into a global support entity – which is necessary given the increase in the number of live countries within the ADIB Group - and to further evaluate centralization opportunities with businesses.

Human Resources

The theme for the year for Human Resources was support of expansion, both on the domestic front and in the international arena, with a focus on strengthening the Human Resources infrastructure and operational efficiency. This supported both domestic expansion, particularly the increase in retail branches and growth of Private Banking and Wholesale Banking teams, and international growth, with new Bank offices in Qatar, Saudi Arabia and Sudan and increasing business in growth in Iraq and the United Kingdom. Talent mobility was enhanced in the year as a formal policy was implemented to provide staff access to internal growth opportunities to ensure career development and to enhance staff motivation.

Emiratization continued to be a focus area and ADIB participated in a number of careers events, such as the: Abu Dhabi Expo; National Careers – Sharjah Expo; and careers fairs and open days in colleges and universities. With our continued sponsorship of Tawdheef 2012 – the Abu Dhabi recruitment fair, we assured our commitment to the growth of Emirati talent through walk-in interviews and on-the-spot employment offers.

As part of its commitment to societal development ADIB also signed a memoranda of understanding with many educational institutions in UAE such as American University Dubai, EIBFS, Al Hosn University, HCT and Abu Dhabi University for sponsoring students and for participating in the development of academic programs.

International Operations

National Bank for Development, Egypt

In 2012, as the country continued in its transformation to democracy with the presidential elections and voting on a new constitution taking place, the environment remained challenging with sporadic street disturbances in the run-up to both events. The economy also witnessed a slowdown in GDP growth, and the Egyptian pound and foreign reserves were under constant pressure whilst on-going negotiations took place with the IMF.

Despite this challenging external environment and with the Bank in Egypt focused on consolidating its prior investments and leveraging its existing infrastructure, it has been able to show substantial growth in the balance sheet with customer assets growing by 54% in the year (before the impact of the final write-down of the legacy non-performing loan portfolio acquired at acquisition in 2007). This growth-rate led to an increase in NBD's market share of customer assets (Islamic and conventional) from 0.8% to 1.1%, and in Islamic assets from 18.2% to 24.7%. Customer deposits grew by 13% over the year, which was two and a half times the overall market growth rate.

Whilst the focus was on conservatism, a number of product and service initiatives were launched including Corporate Finance which was established in the Wholesale Bank, marking the first such Islamic operation in Egypt. This team won the mandate to arrange the first Shari'a-compliant syndicated facility in Egypt, which was successfully executed in the last quarter of the year. In Retail Banking: NBD soft launched the first covered card in Egypt; Bank@Work was rolled out with the opening of 48 new payroll relationships; an IVR system was also launched and a service council was established to oversee service quality improvements, which resulted in a substantial improvement in service quality of the branches where the mystery shopping scores improved from 66% to 83%.

On the IT side, a major systems upgrade to the core banking system was completed and will facilitate the faster roll out of new products and provide enhancements to the control environment. In addition, to ensure continuity of service to customers, a state-of-the-art disaster recovery site was commissioned, which will allow the bank to operate full normal operations in a contingency situation.

All these achievements culminated in the Bank winning Islamic Finance News' 'Best Islamic Bank in Egypt' for the second year in a row and Best Islamic Bank by Amwal El Ghad (the leading financial magazine in Egypt).

ADIB Iraq

ADIB Iraq was formally launched in the year, making ADIB the first UAE-based financial institution to receive a full banking license from the Central Bank of Iraq and to start operations. In addition, the necessary approvals were received to establish a presence in the North of Iraq (Erbil) to capture Wholesale Banking business opportunities in the Kurdistan region.

The business focus in Iraq was on the acquisition of top tier corporate clients and top notch high-net worth clients through a suite of corporate finance, investment banking and treasury products. In addition, ADIB Iraq also offered traditional Transaction banking services such as international trade finance solutions.

ADIB Iraq was granted approval from the Central Bank of Iraq to confirm Iraq oil export letters of credit issued by multinational oil corporations, multinational commodities and oil traders and financial institutions and this is poised to become an important part of the business. It also successfully executed the first fully Shari'a-compliant Murabaha Letter of Credit in the local market. ADIB is now poised to support and guide UAE and GCC investments in Iraq and its surrounding areas and it will also work to develop the Islamic finance industry in Iraq by bringing best-in-class Islamic banking products to the market.

ADIB Qatar

2012 was a year of comprehensive business preparation for ADIB Qatar (QFC branch) to enable it to start operations in early 2013. The product offering (Murabaha, Ijarah, and Istisna'a) and the Schedules of Charges for trade finance products and services and for deposit accounts and cash management services and products were finalized in the year.

ADIB Qatar plans to follow a customer-centric approach with a focus on Wholesale Banking and Private Banking for public listed companies, high net worth individuals and family business groups.

ADIB UK

The United Kingdom Bank started its operations in London at the prestigious One Hyde Park at Knightsbridge in May 2012. It became the first UAE-based Islamic financial institution to receive a banking license from the Financial Services Authority and to offer a full range of services to high net worth individuals.

The UK branch is initially intended to serve UAE based clients whose interests are increasingly international and who often choose London as their base for business and personal transactions. To provide a familiar customer experience and a relationship-driven service, an exclusive Priority Banking centre was also established on its premises.

Besides demonstrating the Bank's commitment to reach out to its customers wherever they are, ADIB aims to contribute to the development of the Islamic finance industry in the United Kingdom.

Saudi Installment House

ADIB entered the important Saudi Arabia market in 2012 with the acquisition of a majority share in Saudi Installment House (SIH) along with management control. SIH is one of the pioneers in the non banking financial services industry and has operated successfully in the Kingdom of Saudi Arabia for the last 20 years during which time it built a strong business and solid reputation. SIH aims to become the first choice consumer finance company in the Kingdom of Saudi Arabia. It will achieve this on the back of a cohesive business model with centralized operations offering demand-driven products under-pinned by efficient risk management using state of the art technology and delivering an excellent customer service.

ADIB's acquisition was in the form of the injection of fresh capital in January 2012. This was followed by a realignment project which included relocation of the head office and branches and upgrade of its infrastructure capabilities on people, systems and processes.

Bank Branches' Network

Abu Dhabi Area (West)

1. Al Najda Street
2. Mushref Br
3. Khalidiya Men
4. Khalidiya Ladies
5. Khalifa Street
6. Muroor
7. Sheikh Khalifa Energy Complex
8. Mina Branch
9. Abu Dhabi Municipality
10. Abu Dhabi Immigration
11. Abu Dhabi Sharia Court
12. Al Wahda Mall
13. Main Branch - Al Bateen
14. ADIA Cash Office
15. Marina Mall
16. Abu Dhabi Police GHQ
17. Abu Dhabi Chamber of Commerce Cash Office

Abu Dhabi (East)

18. Madinat Zayed
19. Baniyas
20. Mussafah
21. Al Ruwais
22. Bainal Jesrain
23. Al Rahba
24. Abu Dhabi Airport
25. Madinat Zayed Immigration Cash Office
26. Al Sila
27. Dalma Mall
28. Al Marfaa
29. Delma Island
30. Liwa
31. Khalifa A City

Al Ain

32. Al Ain
33. Al Jimi
34. Sinaiyah
35. Al Yahar
36. Al Murabba
37. Al Ain Municipality
38. Al Ain Immigration Cash Office
39. Al Wagan
40. Al Hayer
41. Al Ain Ladies
42. Al Bawadi Mall
43. Al Ain Court Cash Office

Dubai

44. Deira
45. Sh. Zayed Road
46. Al Twar
47. Dubai Internet City (DIC)
48. Al Mamzar
49. Dubai Mall
50. Nad Al Hamar
51. Al Warqaa
52. Al Mohaisnah
53. Jumeirah
54. Al Rigga
55. Oud Metha
56. Al Barsha
57. Ibn Battuta Mall

Sharjah

58. Sharjah
59. Khorfakkan
60. Al Wasit - Sharjah
61. Al Dhaid
62. Al Taawoun Mall
63. Al Buhairah
64. Kalba
65. Al Hamriya Free Zone
66. Al Qarayen

Ajman

67. Ajman
68. Ajman Cornish

Fujairah

69. Fujairah
70. Dibba
71. Fujairah City Centre

Ras Al Khaimah

72. Ras Al Khaimah
73. RAK Airport Road
74. Al Hamra Mall

Umm Al Quwain

75. Umm Al Quwain

Branch Management


Mr S Awadallah


Mr A Abdulla


Mr A Al Najar


Mr S Al AlKeem


Mr A Mesarri


Mr Y Jaafar


Mr E Nagdy


Ms E Al Alili


Mr A Al Mulla


Mr H Al Shamsi


Mr Z Al Khazraji


Mr F Shami


Mr M Al Dhanhani


Mr H Kader


Mr T Al Bahri


Mr Y Albairaq


Mr F Al Rais


Mr M Abuzour


Mr K Al Hosani


Mr H Al Shateri


Mr M Al Hajeri


Mr M Al Khoori


Mr M Barghouth


Mr A Al Hammadi


Mr A Al Melhi


Mr H Al Hosani


Mr Y Al Hammadi


Mr A Al Balooshi


Mr A Al Boloshi


Mr A Al Dhaheri


Mr H Ali Al Naqeeb


Mr I Al Baloushi


Mr A Mansour


Mr M Zainal


Mr H Al Saadi


Mr I Al Qasser


Mr H Al Zaabi


Mr S Al Ameri


Mr Y Ahli


Mr Y Salha

Branch Management continued


Mr A Al Nuaimi


Mr E Al Kaabi


Mr F Ibrahim


Mr M AlTunaiji


Mr H Tamimi


Mr A Zaabi


Mr S Al Shaali


Mr A Al Mutairi


Mr K Al Kaabi


Mr A Al Neaimi


Mr A Al Shehhi


Mr O Alrais


Mr S Al Askar


Mr S Al Marzouqi

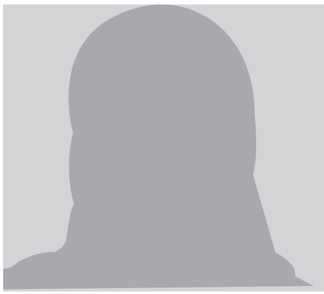

Mr S Qamer


Mr R Al Mutawwa


Mr A Al Mazrooi


Mr A Al Afifi


Mr M Al Marzooqi


Ms M Al Darmaki


M. S Al Darmaki


Mr M Al Mehairy


Mr S Al Dhaheri


Mr N Al Abdool


Mr S Al Shehhi


Mr R Al Falasi


Mr M Al Balooshi


Mr A Al Zaabi


Mr S Al Saedi


Mr A Al Shammar


Mr Y Al Nuaimi


Mr T Al Dhanhani


Mr A Waheedi

Financial Services Business Review

ADIB Securities

The UAE equity market trading volumes grew by 13% in the year in line with overall index growth. As the number of licensed operators continued to fall, ADIB Securities grew its value of executed transactions by 27% year-on-year, to remain the No 1 brokerage in the UAE for the second consecutive year. ADIB Securities' market share at the end of 2012 stood at 9%, compared to 8.6% in 2011. Online trading, launched towards the end of 2010, has now grown by 155% to account for 16% of total volumes, thus clearly indicating customer preference and acceptance of this new channel.

Net income stood at AED 5.7 million, representing a 135% increase over 2011. The standards of service remained high as ADIB Securities maintained one of the highest customer satisfaction levels in the industry.

Abridged Balance Sheet

	31 December	
	2011 AED Million	**2012 AED Million**
ASSETS		
Bank balances and cash	46.9	**40.4**
Investments in equities	0.1	**0.1**
Account recievables and prepayments	3.6	**23.5**
Property and equipment	3.9	**2.0**
Total Assets	54.5	**66.0**
LIABILITIES		
Due to financial institutions	-	**3.4**
Accounts payable and accruals	2.3	**4.6**
	2.3	**8.0**
EQUITY		
Share capital	30.0	**30.0**
Retained earnings and other reserves	22.2	**28.0**
	52.2	**58.0**
Total Liabilities and Equity	54.5	**66.0**

The above financial results are consolidated line by line in the Abu Dhabi Islamic Bank's Consolidated Financial Statements as required by *International Accounting Standard 27 – Consolidated and Separate Financial Statements*.

Abridged Income Statement

	For the year ended 31 December	
	2011 AED Million	**2012 AED Million**
Commission Income	14.7	**18.1**
Other revenues	0.5	**0.5**
Total Revenues	15.2	**18.6**
Total expenses	(12.8)	**(12.9)**
Profit for the year	2.4	**5.7**

Non-Financial Services Business Review

Burooj Properties

ADIB continued the process of bringing the legacy investment and development portfolio held by its real estate subsidiary, Burooj Properties, to account and made further impairments of AED 190 million in this regard. All properties and commitments in the Burooj portfolio were subjected to independent review in order to determine the real value of each property, with reference to recent market conditions, current market prices and estimates of the net present value of future cash flows.

Despite some welcome signs of recovery in the sector, these have been isolated and the real estate market in general remains under pressure.

Until there is clear evidence of a sustainable recovery, ADIB will continue with prudent measures in its management of the Burooj portfolio in 2013.

MPM (the property management arm of Burooj), however, continued on its growth trajectory and added almost 1,500 new units in 2012 to bring the total portfolio of units under management to nearly 25,000 units. MPM's geographical presence and coverage was also expanded outside Abu Dhabi, with a significant number of new units coming from the Northern Emirates.

Abridged Balance Sheet

31 December	2011 AED Million	2012 AED Million
ASSETS		
Bank balances and cash	81.6	**111.8**
Investment in properties	1,121.9	**1,143.6**
Investments in equities	44.1	**37.4**
Advance against purchase of properties	1,000.3	**913.8**
Property and equipment	149.7	**151.5**
Other receiavbles	350.7	**200.7**
Total Assets	2,748.3	**2,558.8**
LIABILITIES		
Murabaha payable	1,997.5	**1,997.5**
Other payables	552.0	**674.1**
	2,549.5	**2,671.6**
EQUITY		
Share capital	500.0	**500.0**
Retained earnings and other reserves	(301.2)	**(612.8)**
	198.8	**(112.8)**
Total Liabilities and Equity	2,748.3	**2,558.8**

The above financial results are consolidated line by line in the Abu Dhabi Islamic Bank's Consolidated Financial Statements as required by *International Accounting Standard 27 – Consolidated and Separate Financial Statements.*

Abridged Income Statement

For the year ended 31 December	2011 AED Million	2012 AED Million
Investment revenues	(61.0)	**(96.2)**
Fees and commissions	52.2	**43.7**
Other revenues	9.0	**7.2**
Total Revenues	0.2	**(45.3)**
Total expenses	(78.2)	**(69.9)**
Provision for impairment	(196.1)	**(190.0)**
	(274.3)	**(259.9)**
Loss for the year	(274.1)	**(305.2)**

Corporate Social Responsibility

ADIB's approach to Corporate Social Responsibility (CSR) centered on the expansion of efforts in four key focus areas, namely financial education, the work environment, talent development and community outreach initiatives.

ADIB acknowledges its responsibility to the society in which it operates and is thus committed to being a responsible corporate citizen, managing its business to add value for customers, shareholders, communities and employees.

In 2012, ADIB's approach to Corporate Social Responsibility (CSR) centered on the expansion of efforts in four key focus areas, namely financial education, the work environment, talent development and community outreach initiatives.

Financial education:

Education in terms of financial best practices has frequently been ignored in the UAE amidst the country's rapid growth and concomitant rise in personal wealth. To combat this, and given the underlying corporate values of ADIB, the Bank has adopted a strong focus on financial education and in this regard a number of key initiatives were carried out:

- The Bank's umbrella financial education campaign, first launched with the introduction of the Smart Money initiative in 2011, entered its second phase with the creation of the ADIB Wealth Management Solutions Centre. This is a simple and interactive online portal where visitors can access information and tips on savings to improve their personal money management skills, empowering them to make informed and responsible financial decisions.
- The launch of ADIB Financial Health Check: an easy-to-use financial assessment tool enabling clients to assess their own money management practices, from budgeting, savings, managing debt and investments to preparing for retirement. It provided the first step for consumers to assess their financial health and to guide them, where necessary, towards modifying their financial habits. Customers were able to take the Financial Health Check at any of ADIB's six stands placed at major shopping malls in the UAE during Ramadan and online through www.adib.ae or the Bank's Facebook site;
- The creation of an online platform where customers could engage in an interactive discussion and share their financial experience with others;
- For the second consecutive year, ADIB participated in Dubai's Global Village and in order to offer financial education to visitors, the Bank's well-loved children's character "Darhoom" was used there for educational shows that reached over 25,000 people during 2012;
- For the third consecutive year ADIB provided tips for personal financial management which were broadcast through a series of TV and radio shows during the month of Ramadan.

Complementing its financial education efforts, the Bank was a key player in the debt relief discussions for UAE Nationals with the regulators and other stakeholders, leading the industry effort to present viable client relief mechanisms to policy makers.

The work environment:

In line with the UAE government's target of reducing its carbon footprint by 20% by 2015, and given the Bank's growing commitment to environmental responsibility, the new ADIB head office currently under construction has applied best practice design principles aimed at minimizing both energy and water inputs and waste outputs, and maximizing recycling and environmental quality.

As a result the development has received the LEED Pre-Certification for Gold Rating from the US Green Building Council and is also focusing on receiving the appropriate categorization under the UAE's Estidama program. Further successful environmental initiatives underway focus on systems for the reduction of paper usage, recycling, and electricity savings through better air-conditioning and lighting management.

Talent development:

ADIB has always been a strong proponent of fostering local talent, a thrust that was recognized again with an award by the Emirates Institute of Banking and Financial Studies (EIBFS) for its continued commitment to Emiratization and for supporting Emiratization initiatives in the UAE. In addition a number of agreements were signed with different universities and colleges, including: American University of Dubai; EIBFS; Al Hosn University; HCT; and Abu Dhabi University to sponsor students and participate in the development of academic programs, with the intention of increasing employment opportunities for UAE nationals within the Islamic finance sector. ADIB also participated in a number of career events and fairs for UAE nationals and has also tied up with the HCT to create the region's first Institute of Islamic Economics & Ethics.

Community Outreach Initiatives:

Community initiatives remain a core component of ADIB's CSR activities. Existing activities were enhanced during the year by the launch of ADIB Community Banking, a first of its kind in the banking sector, to address the banking requirements of non-profit organizations, Government and private organizations focused on serving the UAE community. This division actively manages the banking and financial services needs of non-profit organizations such as the Marriage Fund, Red Crescent and Zakat Fund and then partners with them to assist the community at large.

Building on the success of last year's educational approach during the Holy Month of Ramadan, ADIB showcased "Discovering Ka'aba", a unique exhibition portraying the story of Ka'aba, the most sacred monument in Islam. This was a contribution towards educating the UAE community about sacred artifacts, an important part of the regions's cultural identity.

Also during Ramadan, the Bank continued its traditional annual goodwill gesture of deferring the installment payment for the month for all financing customers, to help them deal with the additional expenses typically associated with Ramadan and Eid Al Fitr. Staff then participated in the Bank's Ramadan CSR initiative where they distributed Iftar boxes to major mosques, orphanages and taxi companies across the UAE.

ADIB has tied up with Campden to launch the first Middle East Philanthropy Awards, helping to celebrate and raise awareness of cultural and social philanthropic efforts in the Arab region of the Middle East.

The Bank continued to be a champion in enhancing market awareness about Islamic banking. Some key activities on this front included:

- Joining hands with Bloomberg TV to launch the 'Faith in Finance' series, which helped raise awareness of Islamic banking among a wider global audience; and
- Partnering with Zawya to launch an SME portal, the Business Pulse, a unique online platform earmarked for the SME population in the region and due for launch in the first quarter of 2013.

Corporate Governance Report

Corporate governance is a matter of vital importance and a fundamental part of the culture and business practice of the Abu Dhabi Islamic Bank and its subsidiaries ("the Group"). The Group is committed to the application of relevant global best practice in regard to governance, transparency, enhancing the management and oversight of risk, as well as promoting the highest standards of audit and compliance accountability.

Corporate governance is a fundamental aspect of the culture and business practices of Abu Dhabi Islamic Bank and its subsidiaries ("the Group"). The Group aims to be a leader in corporate governance in the region through the on-going application of relevant global practices with regard to: governance; transparency; the enhancement of the management and oversight of risk; as well as the promotion of the highest standards of audit and compliance accountability. Furthermore, the Group prides itself on being one of the first banks to comply with the governance guidelines of the UAE Central Bank.

The Group Corporate Governance Structure consists of: an elected Board of Directors; a Fatwa and Shari'a Supervisory Board; five independent Board Committees; and effective supervisory monitoring processes.

Board of Directors

The Board of Directors (the "Board") is the principal decision-making forum for the Group. It has overall responsibility for leading and controlling ADIB and is accountable to shareholders for financial and operational performance.

The Board has all the necessary powers to carry out its responsibilities, as provided by: Federal Law No.8 of 1984 concerning Commercial Companies, as amended; the Memorandum and Articles of Association of ADIB; resolutions of the Annual General Meeting and Extraordinary General Assemblies; and any other relevant laws or regulations.

The Directors, all of whom are Non-executive, have considerable experience across a number of industries and business sectors and provide valuable input and an external perspective to matters of business strategy. The Group has set the criteria for Independent Directors and Non-executive Directors and these continued to be met during 2012.

The Directors as of 31 December 2012 were:

Name	Position	Appointment Date
H.E. Jawaan Awaidha Suhail Al Khaili	Chairman	28/02/2008
Mr. Khaled Abdulla Neamat AlKhouri	Vice Chairman	26/04/2007
Mr. Juma Khamis Al Khaili	Member	16/04/2004
Mr. Khamis Mohamed Buharoon Al Shamsi	Member	26/08/2007
Mr. Abdulla bin Aqeeda Al Muhairi	Member	21/04/2010
Mr. Ragheed Najeeb Shanti	Member	26/04/2007
Dr. Sami Ali Al Amri	Member	10/03/2009

Independence from Management

The roles of the Chairman and the Chief Executive Officer are distinct and separate, with a clear division of responsibilities.

The Chairman leads the Board and ensures the effective engagement and contribution of all Directors. As of 2012, the Chief Executive Officer has responsibility for all Group businesses, and he acts in accordance with the authority delegated by the Board. Responsibility for the development of strategy, policy and the operational management of the Group is delegated to the Chief Executive Officer and his senior management team as appropriate.

All Directors participate in discussing strategy, financial and operational performance and the risk management of the Group, either in Board meetings or in meetings of the Board Committees on which they serve. Meetings of the Board are structured to allow open discussion and accountability.

The Board establishes the rules relating to administrative, financial and employee matters of the Group, sets out the requirements for the carrying out of Board business and meetings, and mandates the roles and responsibilities of the Board members.

There were seven scheduled Board meetings during 2012. The Directors were supplied with comprehensive papers in advance of each such meeting, covering the Group's principal business activities. The Chief Executive Officer and members of his management team attend and make regular presentations at meetings of the Board as necessary.

Board Balance and Independence

In 2012 the Board comprised the Chairman, Vice Chairman and five other Board Members. All the Board members are Non-executive Directors and the majority are UAE nationals, as required by the Federal Commercial Companies Law and the Bank's Articles of Association. The Board functions effectively and efficiently, backed by the knowledge, mix of skills and experience provided by the Directors. The Board Committees comprise Directors, as well as external independent Subject-Matter Experts, with a variety of relevant skills and experience aimed at ensuring that no undue reliance is placed on any one individual.

Selection and Qualification of Board Members

The Group Nomination Committee is responsible for identifying, evaluating and selecting candidates for the Board of Directors. In doing so, it seeks to identify the skills that the members of the Board and Board Committees require in order to discharge their responsibilities effectively, taking into account the Group's risk profile, business operations and business strategy.

The Board members, who were elected by the shareholders for a three-year term in the Annual General Assembly Meeting of 21 April 2010, continued their term during 2012 without any change.

Information, induction and ongoing development

The Directors receive accurate, timely and clear information on all relevant matters and have access to the advice and services of the Head of Legal & Corporate Secretary who, together with the Head of Corporate Governance and Compliance, are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

A formal induction process exists for each new Director upon joining the Board, including visits to the Group's major business areas and meetings with other Directors, the Chief Executive Officer and key members of senior management. The Group provides the necessary professional development that Directors consider necessary to assist them in carrying out their duties.

Board Committees

The following Board Committees, which were revised in 2010 to reflect the Corporate Governance guidelines of the Central Bank of the UAE and best practice standards, continued to work effectively and independently during 2012.

- Group Strategy Execution Committee;
- Group Audit Committee;
- Group Risk Policy Committee;
- Group Remuneration Committee; and
- Group Nomination Committee.

Group Strategy Execution Committeee

The Board has delegated the necessary authority to the Group Strategy Execution Committee in order to enable it to assist the Chief Executive Officer and the executive management team in the execution of the Group's strategy and achieving the Group's strategic objectives.

The Committee has the following mandate:

- Review, consider, discuss and challenge strategic and related recommendations, including capital, submitted by the relevant management within the Group;
- Work with executive management to make recommendations to the Board on strategy and the long term objectives of the Group;
- Review and approve the delegation of approval authority to management in regard to the overall policies and procedures of the Group;
- Approve the authorities delegated to the Group's executives;
- Approve significant and very high value transactions in regard to credit facilities, acquisitions and divestures, new business initiatives and proprietary investments;
- Review proposals and budgets from management for the establishment of branches, subsidiaries and new joint ventures; and
- Review and making recommendations to the Board on any material related party transactions.

The members of the Group Strategy Execution Committee are:

Name	Position
Mr. Ragheed Najeeb Shanti	Chairman
Mr. Tirad Al Mahmoud - Chief Executive Officer*	Vice Chairman
Mr. Khaled Abdulla Neamat AlKhouri	Member
Mr. Khamis Mohamed Buharoon Al Shamsi	Member
Dr. Sami Ali Al Amri	Member

* Non-Board member

Group Audit Committee

The Group Audit Committee was appointed to assist the Board in fulfilling its oversight responsibilities in respect of the Group.

The mandate of the Committee is to:

- Assist the Board in fulfilling its oversight responsibility relating to the integrity of the Group's consolidated financial statements and financial reporting process;
- Review the financial and internal control systems, quality assurance and operational risk management;
- Review the performance of the internal audit function;
- Review the annual independent audit of the Group's consolidated financial statements and internal controls over financial reporting;
- Recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
- Ensure compliance by the Group with legal and regulatory requirements in all of its business activities.

In 2012 the Committee received all the information and material it required to allow it to meet its obligations in respect of the 2012 financial statements, and other mandated responsibilities.

The members of the Group Audit Committee are:

Name	Position
Mr. Abdulla bin Aqeeda Al Muhairi	Chairman
Mr. Juma Khamis Al Khaili	Member

The appointment of a third member, as a Subject Matter Expert is under review.

Group Risk Policy Committee

The Group Risk Policy Committee assists the Board in fulfilling its oversight responsibilities in respect of the following risks inherent in the businesses of the Group and the related control processes:

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

The members of the Group Risk Policy Committee are:

Name	Position
Mr. Arthur Grandy*	Chairman and Subject Matter expert
Mr. Tirad Al Mahmoud - Chief Executive Officer*	Vice Chairman
Mr. Juma Khamis Al Khaili	Member
Mr. Khamis Mohamed Buharoon Al Shamsi	Member
Mr. Ragheed Najeeb Shanti	Member
Mr. Masarrat Husain-Group Chief Risk Officer*	Non-voting member

* Non-Board members

Group Remuneration Committee

The Group Remuneration Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following:

- Reviewing the selection criteria and the number of executive and employee positions required by the Group; and
- Reviewing on an annual basis the policy for the remuneration, benefits, incentives and salaries of all Group employees.

The members of the Group Remuneration Committee are:

Name	Position
Mr. Juma Khamis Al Khaili	Chairman
Mr. Khaled Abdulla Neamat AlKhouri	Member
Dr. Sami Ali Al Amri	Member

Group Nomination Committee

The Group Nomination Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Group:

- Leading the process for Board member appointments and re-appointments;
- Making recommendations to the Board for the succession of Directors; and
- Ensuring the independence of the Independent Directors at all times.

The members of the Group Nomination Committee are:

Name	Position
H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
Mr. Juma Khamis Al Khaili	Member
Dr. Sami Ali Al Amri	Member

Board meetings and attendance

The Board meets regularly and Directors receive information between meetings about the activities of the Board Committees and developments in the Group's business.

The number of scheduled meetings of the Board and Board Committees and individual attendance by members in 2012 are shown below:

Board Members	Status	Board	Strategy Execution Committee	Audit Committee	Risk Policy Committee	Remuneration Committee	Nomination Committee
		7 Meetings	28 Meetings	4 Meetings	4 Meetings	2 Meetings	1 Meeting
H.E. Jawaan Awaidha Suhail Al Khaili	Non-Executive	4					1
Mr. Khaled Abdulla Neamat Al Khouri	Independent	6	19			2	
Mr. Juma Khamis Al Khaili	Independent	4		4	3	2	1
Mr. Khamis Mohamed Buharoon Al Shamsi	Non-Executive	7	25		4		
Mr. Abdulla bin Aqeeda Al Muhairi	Independent	7		4			
Mr. Ragheed Najeeb Shanti	Non-Executive	7	24		4		
Dr. Sami Ali Al Amri	Independent	7	23			2	1
Other Members							
Mr. Tirad Mahmoud	Chief Executive Officer		26		3		
Mr. Arthur Grandy	Subject Matter Expert				4		
Mr. Masarrat Husain	Group Chief Risk Officer				4		

Ordinary and Extraordinary General Assembly Meetings

The Ordinary Annual General Assembly Meeting of the shareholders was conducted on 4 April 2012, wherein the following matters were discussed and approved:

- Board of Director's Report on the Bank's activities and financial statements for the year ended 31 December 2011;
- The Shari'a and Fatwa Supervisory Board Report on the Bank's activities for the year ended 31 December 2011;
- External Auditor's report for the year ended 31 December 2011;
- The audited Balance Sheet and Profit & Loss account and proposed Board Members' remuneration for the year ended 31 December 2011;
- The proposal to distribute to the shareholders 50% of net profits for the year ended 31 December 2011;
- Discharge of Board of Directors and External Auditors from liability for their work during the year ended 31 December 2011; and
- Appointment of External Auditors for the year 2012 and determination of their fees.

An Extraordinary General Assembly Meeting (EGM) was held on 21 October 2012, wherein the shareholders approved the proposed issuances and programmes listed in paragraphs 1-4 below and to authorize the Board of Directors of the Bank, (and/or any Board Committee and/or the Executive Management of the Bank, individually or collectively, in each case as authorized or to be authorized by the Board of Directors of the Bank) in this regard, to take all necessary actions to determine the optimal (i) capital; and (ii) funding position of the Bank, by determining the amount, currency, tranches, offering mechanism (public or private placement), issuer (including a direct or indirect through a special purpose vehicle) issuance), transaction structure (single issuance, multiple issuances or programme establishment or update), timing, tenor and other terms and conditions (including, without limitation, the underlying Islamic structure, geographies of issue, listing if any) and ranking of any payments against future dividends of any issuances and to take the necessary measures and to seek any and all approvals from the relevant competent authorities required in connection with any such issuances; provided that the aggregate amount of such issuances outstanding at any one time shall not exceed USD5 billion (or the equivalent thereof in other currencies) and with the following specific sub-limits (it being noted that each of the sub-limits set out in paragraphs 1-4 relate to separate approvals and should not operate (or be interpreted to operate) as limiting each other:

1. The Bank's Trust Certificate Issuance Programme and issuances thereunder, with the aggregate amount of trust certificates outstanding at any one time under the programme limited to USD5 billion (or the equivalent thereof in other currencies), as originally approved by the EGMs dated 26 March 2006 and 31 March 2011;

2. The issuance in Malaysian Ringgits (MYR) of: (i) non-convertible Shari'a compliant tier 2 capital instruments for the purposes of raising further tier 2 capital to strengthen the Bank's capital adequacy ratio; and/or (ii) Shari'a compliant non-convertible senior unsubordinated securities for the purpose of providing additional funding for the Bank's activities, providing that the aggregate amount outstanding at any one time in respect of instruments issued pursuant to (i) or (ii) shall not exceed MYR1.5 billion;

3. The issuance of non-convertible Shari'a compliant tier 2 capital instruments for the purpose of raising further tier 2 capital to strengthen the Bank's capital adequacy ratio, provided that the aggregate amount outstanding under such instruments at any one time shall not exceed USD2 billion (or the equivalent thereof in other currencies) (taking into account for this purpose the amounts (if any) outstanding under the AED2.2 billion tier 2 capital Wakala with the Ministry of Finance of the United Arab Emirates (as approved on 22 March 2009) or any future replacement of same; and

4. The issuance of non-convertible Shari'a compliant hybrid tier 1 capital instruments for the purpose of raising further tier 1 capital to strengthen the Bank's capital adequacy ratio, provided that the aggregate amount outstanding under such instruments at any one time shall not exceed USD2 billion (or the equivalent thereof in other currencies) (taking into account for this purpose the amounts (if any) outstanding under the AED2 billion hybrid tier 1 capital issuance to the Department of Finance, Government of Abu Dhabi (as approved on 22 March 2009) or any future replacement of same).

That any and all issues under the proposed issuances and programme identified in paragraphs 1-4 above (and subject to the above limits) do not require any additional shareholder approvals provided the relevant instruments do not contain provisions entitling the investors or Sukuk holders to convert their interests into share capital in the Bank.

Directors' remuneration and interests in the Group's Shares

Directors' remuneration is approved at the Annual General Assembly Meeting. During 2012 the total remuneration paid to the directors was AED 4.2 million. In addition Board members also received AED 3,000 by way of an attendance fee for every Board or Committee meeting that they attend.

Directors' interests in the Group's shares are as follows:

Board Members	Shareholding at 1 January 2012	Shareholding at 31 December 2012	Changes in shareholding
H.E. Jawaan Awaidha Suhail Al Khaili	43,941,108	43,941,108	-
Mr. Khaled Abdulla Neamat AlKhouri	-	-	-
Mr. Juma Khamis Al Khaili	5,148	5,148	-
Mr. Khamis Mohamed Buharoon Al Shamsi	-	-	-
Mr. Abdulla bin Aqeeda Al Muhairi	-	-	-
Mr. Ragheed Najeeb Shanti	-	-	-
Dr. Sami Ali Al Amri	-	-	-

External Auditors

The Group Audit Committee undertakes an annual evaluation to assess the independence and objectivity of the external auditors and the effectiveness of the external audit process. The Group Audit Committee is also responsible for making recommendations to the Board on the appointment, reappointment, remuneration and removal of the external auditors. The shareholders approved the appointment of Ernst & Young as the external auditors of the Group for 2012 at the Annual General Assembly Meeting held in April 2012.

The Group Audit Committee also carries out a review of all non-audit services provided by the external auditors, in line with the Group's policy for external auditor's independence.

Fatwa and Shari'a Supervisory Board

The members of the Fatwa and Shari'a Supervisory Board were elected by the shareholders in the Annual General Assembly Meeting, of 21 April 2010 continued their term during 2012 without any change.

The Fatwa & Shari'a Supervisory Board, whose members are not Board Directors, has a term of three years and all members are required to form a quorum, whether by principal or by proxy. It has the following mandate:

- It issues fatwas pertaining to the Group's activities at the request of the Group's executive management or Board of Directors. It also supervises and controls the validity of the Group's activities to ensure that they comply with principles and rulings of the Islamic Shari'a, and provides its recommendations;
- It has the right to submit written objections to the Board of Directors with respect to any of the Group's activities which it considers do not comply with any of the principles and rulings of the Islamic Shari'a. In addition, it reviews all forms of contracts and agreements relating to any of the Group's business and products to ensure their compliance with Islamic principles; and
- It has the right to review, at any time, the Group's books, records and documents, and request any information it may deem necessary. In the event of its inability to discharge its duties, it will report this formally to the Board of Directors.

The members of the Fatwa & Shari'a Supervisory Board are:

Name	Position
Sheikh Mohamed Taqi Uthmani	Chairman
Dr. Abdul Sattar Abu Ghuddah	Vice Chairman
Dr. Jasem Ali Salem Al Shamsi	Member
Sheikh Nizam Ya'qoubi	Member
Dr. Muhamed Elqari	Member

Internal Control

The Board of Directors is responsible for the Group's system of internal control and ensuring that management maintains a system of internal control that provides the appropriate level of assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. The Board must also ensure that internal controls assess, manage and, where appropriate, mitigate against risk. The internal control system is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risk of material misstatement, fraud or losses. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's system of internal control includes:

- An organisational structure with clearly-defined authority limits and reporting mechanisms to senior levels of management and to the Board;
- A Risk Management function with responsibility for ensuring that risks are identified, assessed and managed throughout the Group;
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management and business continuity planning;
- An annual budgeting and monthly financial reporting system for all Group business units which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon; and
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review the management's compliance with policies and procedures.

The effectiveness of the Group's internal control system is reviewed regularly by the Board and the Audit Committee, which receive regular reports on significant risks facing the business and how they are being controlled. Additional details of the Group's approach to risk management are given in the note 43 to the Financial Statements. In addition, the Board received a number of reports from Internal Audit and the Group Audit Committee during the year under review and has received confirmation that management has taken, or is taking, the necessary action to remedy failings or weaknesses identified in these reports.

In addition, the Group's external auditors present to the Group Audit Committee a series of reports that include details of any significant internal control matters which they identified. The system of internal controls of the Group is also subject to regulatory oversight by the UAE Central Bank.

Relations with Shareholders

The Group communicates with shareholders through the Annual Report and by providing information at the Annual General Assembly Meeting. The Group has a dedicated Investor Relations section on its website and also provides extensive information about the Group's Corporate Governance structure and other related information on the same website.

Shareholders are given the opportunity to ask questions at the Annual General Assembly Meeting. Executive management also holds regular meetings with, and make presentations to, institutional investors. In addition to this, individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time during the year.

Consolidated Financial Statements

Contents

Report of the Board of Directors

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
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

ERNST & YOUNG

P.O. Box 136
11th Floor – Al Ghaith Tower
Hamdan Street
Abu Dhabi, United Arab Emirates
Tel: +971 2 417 4400
+971 2 627 7522
Fax: +971 2 627 3383
www.ey.com/me

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

ADIB Fatwa & Shari'a Supervisory Board's Report

To The Shareholders
For the financial year ending December the 31st, 2012

In the name of Allah, the most Beneficent, the most Merciful

All Praises are due to Allah, Lord of all the worlds and may peace and blessings be upon our leader Mohammed, his family and his Companions.

To the shareholders of Abu Dhabi Islamic Bank:

May the peace, mercy and blessings of Allah be upon you

With reference to article 69, from the Articles of Association of the Bank, we are required to report the following:

We have reviewed the utilized principles and contracts, relating to the transactions and applications that were implemented or offered by the Bank during this period, in which we have carried out the necessary supervision in order to express an opinion as to whether the Bank has undertaken its activities in accordance with the principles and rulings of the Islamic Shari'a and the specific, Fatwas, resolutions and guidelines previously issued by us.

It is the responsibility of the Bank's executive management and Board of Directors to ensure that the Bank operates in accordance with the principles and rulings of the Islamic Shari'a. Our responsibility is limited to expressing an independent opinion based on our review of the Bank's operations and to prepare a concise report for you.

Our review included examination of the documentation and procedures adopted by the Bank, and its subsidiaries which do not have their own Fatwa and Shari'a Supervisory Board, to execute the transactions in a Shari'a compliant manner. This review included examining each type of transactions in general, in addition to reviewing the audited financial statements and related notes.

We have designated and executed our review, through the Executive Committee of the Fatwa and Shari'a Supervisory Board and its delegated member (the Executive Member) by obtaining all the information and explanations we deemed necessary to provide us with sufficient evidence to give a reasonable assurance that the Bank had not violated any of the principles and rulings of the Islamic Shari'a. Furthermore, all periodic Shari'a auditing reports raised from the Shari'a division, which included different types of the Bank's executed transactions, have been reviewed and all the notes, mentioned in such reports, have been reviewed in the light of the explanation of the concerned departments and the appropriate decisions and resolutions have been taken with regards to them.

In our opinion:

- The contracts, operations and transactions executed by the Bank (and its subsidiaries which do not have their own Fatwa and Shari'a Supervisory Board) during the financial year ending 31st December 2012 which we reviewed, were predominantly carried out in accordance with the principles and rulings of the Islamic Shari'a; those that were found to be shortcoming were directed to the management for redressing and their consequences were rectified in accordance with the requirements of the Islamic Shari'a.
- The distribution of profits and the bearing of losses on the investment accounts (including the allocation of the costs and expenses between the investment accounts and the shareholders) comply with the basis that we approved to be employed in accordance with principles and rulings of the Islamic Shari'a.
- Any returns that occurred through sources or methods that were not permissible with the principles and rulings of the Shari'a have been transferred to the charity account to be spent for charitable purposes as per our direction.
- In such that the management of the Bank is not authorized to pay Zakat directly, the responsibility of paying Zakat is that of the shareholders; an obligation on them as per the third pillar of Islam.

We ask Allah, the Most High and Capable, that He guide the Bank and those responsible for it with that which is right and that which is good.

Finally, all praise is due to Allah, Lord of all the worlds.

Fatwa and Shari'a Supervisory Board of Abu Dhabi Islamic Bank

On behalf of
Sheikh Mohamed Taqi Uthmani
Chairman

Dr Abdul Sattar Abu Ghuddah
Vice Chairman of the Board, Chairman of its Executive Committee and its Executive Member

Dr Jasem Ali Salem Al Shamsi
Member of the Board and its Executive Committee

Sheikh Nizam Ya'qoubi
Member of the Board and its Executive Committee

Dr Muhammad El-Gari
Member of the Board

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 investment 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.

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:

			Percentage of holding	
	Activity	Country of incorporation	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.

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.

3 BASIS OF PREPARATION continued

3.2 Changes in accounting policies continued

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.

3.3 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.

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.

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.

3 BASIS OF PREPARATION continued

3.4 Significant Judgements And Estimates continued

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.

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.

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.

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.

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.

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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in associates continued

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.

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

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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

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 non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in 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).

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.

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 (LOSS) 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.

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:

	2012 AED'000	2011 AED'000
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

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

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 AED'000	2011 AED'000
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:

	2012 AED'000	2011 AED'000
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:

2012	Land AED '000	Other properties AED '000	Total AED '000
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	Land AED '000	Other properties AED '000	Total AED '000
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.

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:

	2012 AED'000	2011 AED'000
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:

	2012 AED'000	2011 AED'000
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

	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

	2012 AED'000	2011 AED'000
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 AED'000	2011 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 AED'000	2011 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. Contributions to the reserve are voluntary.

33 PROPOSED DIVIDENDS

	2012 AED'000	2011 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

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).

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

	Major shareholder AED '000	Directors AED '000	Associates AED '000	Others AED '000	Total AED '000
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

	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).

41 RELATED PARTY TRANSACTIONS continued

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

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

42 SEGMENT INFORMATION continued

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..

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;
- Maintain the primary relationship with local regulators with respect to risk related issues; and
- 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")

TThe 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.

43.1.4 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.

43.2.1 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 RISK MANAGEMENT continued

43.2 Credit risk continued

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

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.

43.2.4 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 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 RISK MANAGEMENT continued

43.2 Credit risk continued

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).

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 90days 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.

43.3.1 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
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

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 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.

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 .

43.4.1 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.

	2012		2011	
	Increase in basis points	Sensitivity of profit on financial assets and liabilities AED '000	Increase in basis points	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 continued

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

43.4.3 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 net profit 2012 AED '000	% Increase in market indices 2011	Effect on net profit 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.

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 RISK MANAGEMENT continued

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.

The table below 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 AED '000	2011 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.

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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.

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

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
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

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Unquoted investments				
Funds	-	-	174,723	174,723
Private equities	-	-	172,033	172,033
	-	-	346,756	346,756
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.

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 AED '000	2011 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.

Basel II Pillar III Disclosure

The requirements of the Central Bank of the UAE act as the framework for the implementation of the Basel II Accord in the UAE. They are contained in Circular 27/2009 dated 17 November 2009 and are being fully complied with by the Bank.

The framework is based on three pillars:

- Pillar I – Minimum capital requirements: defines rules for the calculation of credit, market and operational risk. The framework allows for different approaches, which can be selected depending on size, sophistication and other considerations. These comprise for Credit Risk: Standardised, Foundation Internal Rating Based (FIRB), Advanced Internal Rating Based (AIRB); for Market Risk: Standardised and Internal Rating Based; and for Operational Risk: Basic Indicator Approach, Standardised Approach, and Advanced Measurement Approach.
- Pillar II – Provides the framework for an enhanced supervisory review process with the objective of assessing the adequacy of the Bank's capital to cover not only the three primary risks (Credit, Marketing and Operational), but in addition a series of other risks to which the Bank is subject; for example, residual risk, business risk etc. It includes the requirement for banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, which is subject to Central Bank review and inspection.
- Pillar III – Market discipline: requires expanded disclosures not previously made public by banks, which will allow regulators, investors and other market participants to more fully understand the risk profiles of individual banks. The requirements of Pillar III in the case of ADIB are fulfilled in this annual report.

Banks are required to disclose all their material risks as part of the Pillar III framework. Many of these requirements have already been satisfied in note **43** to the 2012ADIB Consolidated Financial Statements, which covers in detail the risk and capital management processes of the Bank and its compliance with the Basel II Accord in this regard.

The following Pillar III disclosures provide additional qualitative and quantitative information over and above that contained in note **43** to the 2012 ADIB Consolidated Financial Statements and, together with the information contained in note **43**, meet the full disclosure requirements of Pillar III.

ADIB RISK PHILOSOPHY

Taking risk is at the core of the business of the Bank. All of the profit-making activities involve some measure of risk. Risk is also inherent in the internal business processes and systems, and as a result of external factors. In order for these risk-taking activities to generate a sufficient amount of profit to add to shareholder and depositor value, the risk is managed within the tolerance levels of the organisation and the overall risk appetite set annually by the Board of Directors and reviewed quarterly by the Group Risk and Policy Committee of the Board. The following principles lie at the core of ADIB's risk philosophy:

- Shari'a: Full compliance with Shari'a Governance in all aspects.
- Approval: All business activities which commit the Bank, legally or morally, to deliver risk-sensitive financing solutions, and any business proposals, require approval by authorised individuals or committees, prior to commitment.
- Independence: There exists a clear separation between the business and the risk management functions.
- Transparency: Risk management structures, policies and procedures are transparent. They are based on consistent principles, in written form, and are well communicated.
- One obligor total: Decision authority is determined by the total amount of financing and/or capital at risk, approved for all entities that form a coherent group based on shareholding and/or management control.
- Committee: Decisions regarding policy, product, large or high-risk exposures are taken by the appropriate committee.
- Approval authority: Authorities are delegated by the Board of Directors to an Executive Committee, which in turn delegates authority through the Chief Executive Officer. These reflect the delegates' (committee or individual) level of expertise, experience, track record and seniority.
- Three initials: Risk proposals can only be approved with a minimum of three authorised individuals forming an agreement within the framework set by the Board approved Credit Policy & Procedures Manual.
- Business responsibility: Business units are responsible for the selection of clients and for managing all of the business activities with such clients within approved limits.
- Credit Administration & Control: Critical to ensuring ongoing compliance with policies, approval authorities, approval conditions etc.
- Credit Review/Audit: Periodic independent validation and review of the portfolio and the process across all business units by both internal and external auditors.
- Due diligence: Regular and consistent customer contact, site visits, financial analysis, risk rating and stress testing.

RISK GOVERNANCE

ADIB's Risk Management Framework is focused on integrating Enterprise-wide Risk Management fully into its operations and culture. The role of Risk Management is to support growth, whilst ensuring consistent quality of the Bank's portfolio and an appropriate return for the risk being taken. The objective is to manage earnings volatility, which is achieved by setting clear risk-taking parameters and robust processes.

The Risk Governance Framework supports the Bank's objective of being a dynamic banking entity providing Islamic financial services of excellence, with insight and transparency in risk taking.

Please refer to note 43.1.1 of the 2012 ADIB Consolidated Financial Statements.

RISK APPETITE

The risk appetite of the Bank is defined as the quantum of risk that the Bank is willing to accept whilst pursuing its business strategy. This is done to ensure that, while implementing the strategy, internal and external events do not adversely affect its profitability, capital levels, market capitalisation, and other intangibles such as reputation and brand image.

The Bank defines its 'risk-bearing capacity' as the ability to bear risk in terms of available capital, and the ability to raise additional capital. It also covers the strength of operational processes in the Bank and the strength of its operating culture.

Accordingly, the Bank's current capital reflects its risk-bearing capacity. The Bank has calculated its capital adequacy under the Basel II guidelines as per Central Bank of the UAE requirements. Results indicate that the Bank's overall capital adequacy position is reasonable and that it takes risks commensurate with its level of capital.

COMPONENTS OF RISK MANAGEMENT

The management of risk is a process operated independently of the business units of the Bank. It consists of the following key components:

1. Identification: the Bank endeavours to identify all material risks that it may be affected by. Identification is a continuous and proactive process. It covers all the current activities of the Bank, as well as new products and markets.
2. Policies: In order to ensure that the Bank's business units comply with the approved Risk Management Framework, the Board of Directors has approved detailed Credit Risk Policies and Procedures, and various other policies covering the ALM Charter, Market Risk, Operational Risk and other risks as identified within the Basel II framework.
3. Measurement and monitoring: The Bank spends considerable resources on maintaining a modern IT platform to support risk management, applying a number of models and methods to accurately measure and quantify the risks affecting the Bank on an ongoing basis. The Bank continually monitors models and validates risk parameters to ensure that risk measurement gives a fair presentation of the underlying portfolios and transactions.
4. Parameter applications: In order to best capitalise on the Bank's risk appetite, the Bank applies risk-based data with regard to customers, industries, geographies etc. in the day-to-day management and review of customer transactions.
5. Controls: The Bank has established an independent control environment to monitor and enforce approved policies and procedures, and has various operational aspects with regard to consistent and thorough implementation of the same.
6. Reporting: The Bank has a well-established process for reporting risk factors to the various stakeholders of the Bank.

The Bank aims to reinforce a strong risk management culture through a comprehensive set of policies, processes and procedures that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors is involved both directly and through the Group Risk Policy Committee, in the embedding of material risk processes and the periodic oversight and guidance of the risk management function.

Risk Management Structure: Please refer to note 43.1.1 of the 2012 ADIB Consolidated Financial Statements.

ASSESSMENT OF RISK GOVERNANCE EFFECTIVENESS

As a measure to evaluate the effectiveness of the Risk Governance Standards adopted by the Bank, an independent assessment was again conducted as a part of the annual ICAAP, covering various aspects of the following standards:

- Publications of the Basel Committee for Banking Supervision on Sound Principles of Risk Management
- Publications of the Central Bank of the UAE

The assessment was divided into the following broad categories:

1. Risk management structure
2. Operational risk
3. Credit & Concentration risk
4. Market risk
5. Profit rate risk in the banking book
6. Liquidity risk

The broad results of the assessment are as follows:

* The Bank is following sound practices for Credit Risk, Market Risk, and Asset & Liability Management and all related areas, in accordance with the scale of its operations.

* The Bank has a strong Credit Risk Management Framework. Financing Policy is clearly defined along a defined risk versus return strategy. Limits of exposures to individual and group borrowers are defined, together with lines of authority regarding the granting of new financing and extension of existing limits. In addition, policies for addressing recoveries are established, containing detailed delegations of authority.

* There is a comprehensive Risk Policy Framework including policies for ALM and Market Risk, which includes Profit Rate Risk and Liquidity Risks. ALCO approval is required for the launching of all new products where profit rates are involved.
* The Bank is currently calculating Pillar I Operational Risk Capital Charge using the Basic Indicator Approach as specified by the Central Bank of the UAE. The Operational Risk Management function and processes continue to be embedded in the Bank following the framework articulated in the Sound Practices for Operational Risk published by the Basel Committee on Banking Supervision.

Credit risk and credit risk concentration: Please refer to note 43.2 of the 2012 ADIB Consolidated Financial Statements.

Liquidity risk and funding management: Please refer to note 43.3 of the 2012 ADIB Consolidated Financial Statements.

Market risk including profit rate risk, currency risk, and equity price risk: Please refer to note 43.4 of the 2012 ADIB Consolidated Financial Statements.

Operational risk: Please refer to note 43.4.4 of the 2012 ADIB Consolidated Financial Statements.

OTHER RISKS

Residual risk: This refers to the risk that recognised risk measurement and mitigation techniques used by the Bank prove less effective than expected. The Bank uses various techniques to mitigate the risk of the underlying credit exposure in the normal course of its business. The credit risk mitigation techniques generally used are either financial/non-financial collaterals or credit protection in the form of guarantees. These Credit Risk Mitigation Techniques are recognised for capital relief purposes under the Standardised Approach, except for non-financial collaterals, provided certain minimum criteria are present.

Reputation risk: Refers to the potential adverse effects that can arise from the Bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/adverse publicity etc. The approach adopted by the Bank to measure reputation risk depends on a variety of factors, including the size, nature and complexity of each of its core activities. The capital charge has been estimated assuming that no two extreme events will occur simultaneously. The Bank maintains a sound position in the market; it has not faced any major adverse publicity, deposit run or regulatory penalties over its long history. Its long-term rating of A+ was reconfirmed by Fitch in November 2012.

Business risk: Refers to the risk of the Bank's earnings and profitability arising from its strategic decisions, changes in business conditions, and improper implementation of decisions. Thus business risk arises due to external causes, out of strategies and choices that could cause loss to the Bank in the form of a reduction in shareholder value, loss of earnings etc. The Bank's current business plan is in alignment with its goals and targets.

Settlement risk: Occurs when the Bank simultaneously exchanges value with a customer or with another bank in settlement of a foreign exchange obligation or a similar type of obligation. The risk is that the scheduled payment is not received, thus creating a direct credit risk as well. In the UAE the Central Bank of the UAE manages clearing and settlement amongst the banks and is the lender of last resort, hence the risk of a 'gridlock' is considered negligible. In the case of foreign currency transactions with banks in other countries, the first protection against settlement risk is by dealing with only approved correspondent banks that have been rated by recognised rating agencies such as Moody's, S&P etc., as well as internally by the Bank. Any delayed settlements are closely monitored and the required procedural guidelines to be followed by Treasury and Back Office are in place.

STRESS TESTING

Stress testing refers to various techniques (quantitative and/or qualitative) used by the Bank to gauge its vulnerability to exceptional but plausible events. It is used as a risk management technique to evaluate the potential effects of a specific event and/or movement in a set of financial variables on the Bank's financial condition. Stress testing is based on the concept of 'proportionality and complexity' and its applicability to the activities of the Bank. Relevant factors include size, sophistication and diversification of activities, materiality of different risk types and the Bank's vulnerability to them, etc. Stress testing is an important part of the risk management function in the Bank.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

In accordance with the regulations of the UAE Central Bank, ADIB initiated the ICAAP process late in 2009 and submitted the final report to the UAE Central Bank within the stipulated deadline for 2009. The report for 2011 was also prepared and submitted in early 2012 as required. The process of integrating ICAAP with the Capital Management and Risk Management cultures and practices within the Bank continued in 2012. The production of the annual ICAAP report has enabled the respective departments to carry out the activities highlighted to further enhance the comprehensive risk management and capital management processes, and to measure progress in this respect, year on year. The annual ICAAP process is seen as an important periodic review of all such activities, and is monitored by the Board.

BASEL II IMPLEMENTATION

Basel II activities and implementation are proceeding in accordance with the requirements and schedule defined by the UAE Central Bank Circular 27/2009 dated 17 November 2009.

Pillar III quantitative disclosures are contained in the tables on the following pages.

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENT AS ON 31 DECEMBER 2012

	Country of Incorporation	% Ownership	Description	Accounting Treatment
SUBSIDIARIES				
Abu Dhabi Islamic Securities Company LLC	UAE	95	Equity Brokerage Services	Fully consolidated
Burooj Properties LLC	UAE	100	Real Estate Investments	Fully consolidated
ADIB Invest 1	BVI	100	Equity Brokerage Services	Fully consolidated
Kawader Services Company LLC	UAE	100	Manpower Supply	Fully consolidated
Saudi installment House	Kingdom of Saudi Arabia	51%	Retail Finance	Fully consolidated
ADIB (UK) Limited	United Kingdom	100%	Islamic Banking	Fully consolidated
ADIB Sukuk Company Ltd.*	Cayman Islands		Special Purpose Vehicle	Fully consolidated
ADIB Sukuk Company II Ltd.*	Cayman Islands		Special Purpose Vehicle	Fully consolidated
ADIB Capital Invest 1 Ltd.*	Cayman Islands		Special Purpose Vehicle	Fully consolidated
SIGNIFICANT INVESTMENT				
National Bank for Development	Egypt	49	Banking (under Conversion to Islamic Banking)	Equity Method
Abu Dhabi National Takaful PJSC	UAE	40	Islamic insurance	Equity Method
Bosnia Bank International D.D	Bosnia	27	Islamic banking	Equity Method

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

CONSOLIDATED CAPITAL STRUCTURE AS ON 31 DECEMBER 2012

	Amount AED '000
Tier 1 Capital	
1. Share capital - Paid up	2,364,706
2. Reserves	
a. Legal reserve	1,756,679
b. General reserve	739,030
c. Credit risk reserve	400,000
3. Retained earnings	1,794,577
4. Minority interest in the equity of subsidiaries	53,775
5. Innovative capital instruments	-
6. Tier 1 Sukuk	5,629,165
7. Other capital instruments	-
8. Foreign Currency Translation Reserve	(73,350)
Sub-total	12,664,582
Less: Deductions for regulatory calculation	-
Less: Deductions from Tier 1 capital	(383,013)
Tier 1 Capital - Subtotal	12,281,569
Tier 2 Capital	
1. Qualifying General provisions	764,061
2. Assets revaluation reserves	-
3. Cummulative changes in fair values	(155,700)
4. Hybrid (debt/equity) capital instruments	-
5. Tier 2 Wakala capital	1,765,926
Sub-total	2,374,287
Less: Deductions from Tier 2 Capital	(383,013)
Tier 2 Capital - Subtotal	1,991,274
Total eligible capital after deductions	14,272,843

1. Include minority interests in equity accounts of consolidated subsidiaries that take form of SPVs and moderate step-ups in instruments issued through SPV's, as well as directly issued Tier 1 instruments, subject to stringent conditions (refer to Basel Committee's press release, Instruments eligible forinclusion in Tier 1 capital - 27 October 1988) and limited to a maximum of 15% of Tier 1 capital.
2. Including undisclosed reserves, revaluation reserves, general provision/general loan loss reserves Hybrid debt capital instruments and subordinated debt.

SUMMARY OF RISK WEIGHTED ASSETS AND CAPITAL REQUIREMENT ON 31 DECEMBER 2012

	Description	Risk Weighted Assets AED '000	Capital Requirement AED '000
	1. Credit Risk		
	a. Standardised Approach	61,124,859	7,334,983
	b. Foundation IRB		
	c. Advanced IRB		
	2. Market Risk		
	a. Standardised Approach	1,739,470	208,736
or	b. Model Approach		
	3. Operational Risk		
	a. Standardised Approach	3,758,370	451,004
or	b. Standardised Approach/ASA		
or	c. Advanced Measurement Approach		
	Total Capital requirements	66,622,699	7,994,723

GROSS CREDIT EXPOSURES BY CURRENCY TYPE AS ON 31 DECEMBER 2012

Currency	Customer Financings ((AED '000))	Balances & placements with Banks & FI (AED '000)	Sukuk (AED '000)	Others (AED '000)	Total Funded (AED '000)	Commitments (AED '000)	Other Off-Balance Sheet exposures (AED '000)	Total Non-Funded (AED '000)	Total (AED '000)
AED	46,627,982	1,081,407	706,295	13,755,899	62,171,583	705,812	7,011,348	7,717,160	69,888,743
Foreign Currency	7,666,462	12,924,821	3,279,029	2,165,484	26,035,796	-	3,899,084	3,899,084	29,934,880
Total	54,294,444	14,006,228	3,985,324	15,921,383	88,207,379	705,812	10,910,432	11,616,244	99,823,623

GROSS CREDIT EXPOSURES BY GEOGRAPHY AS ON DECEMBER 31 2012

GEOGRAPHIC DISTRIBUTION	Customer Financings AED '000	Balances & placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet exposures AED '000	Total Non-Funded AED '000	Total AED '000
United Arab Emirates	52,461,375	11,327,193	2,507,844	15,316,889	81,613,301	705,812	10,408,123	11,113,935	92,727,236
Middle east	919,290	611,467	1,157,341	239,188	2,927,286	-	89,965	89,965	3,017,251
Europe	353,477	380,948	-	2,270	736,695	-	-	-	736,695
Others	560,302	1,686,620	320,139	363,036	2,930,097	-	412,344	412,344	3,342,441
Total	54,294,444	14,006,228	3,985,324	15,921,383	88,207,379	705,812	10,910,432	11,616,244	99,823,623

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2012

INDUSTRTY SEGMENT	Customer Financings AED '000	Balances & placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet exposures AED '000	Total Non-Funded AED '000	Total AED '000
Agriculture, Fishing & related activities	572,839	-	-	-	572,839	43	342,633	342,676	915,515
Crude Oil, Gas, Mining & Quarrying	195,456	-	19,557	-	215,013	-	8,890	8,890	223,903
Manufacturing	2,080,549	-	-	-	2,080,549	191	172,402	172,593	2,253,142
Electricity & Water	237,151	-	-	-	237,151	226	7,247	7,473	244,624
Construction	5,731,093	-	972,808	99,663	6,803,564	24,170	6,290,981	6,315,151	13,118,715
Trade	1,399,841	-	306,071	-	1,705,912	969	786,406	787,375	2,493,287
Transport, Storage & Communication	722,641	-	-	-	722,641	1	142,709	142,710	865,351
Financial Institutions	892,849	14,006,228	717,881	413,404	16,030,362	-	1,035,434	1,035,434	17,065,796
Services	3,569,955	-	-	-	3,569,955	19,195	964,809	984,004	4,553,959
Government/ Public Sector	2,815,147	-	1,969,007	10,039,249	14,823,403	100,000	671,810	771,810	15,595,213
Retail/Consumer banking	32,254,503	-	-	141,372	32,395,875	561,017	443,669	1,004,686	33,400,561
All Others	3,822,420	-	-	5,227,695	9,050,115	-	43,442	43,442	9,093,557
Total	54,294,444	14,006,228	3,985,324	15,921,383	88,207,379	705,812	10,910,432	11,616,244	99,823,623

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31 DECEMBER 2012

RESIDUAL CONTRACTUAL MATURITY	Customer Financings AED '000	Balances & placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet exposures AED '000	Total Non-Funded AED '000
Less than 3 months	2,515,421	12,610,461	-	12,202,563	27,328,445	705,812	9,044,836	9,750,648
3 months to one year	8,119,811	1,051,228	1,528,002	3,343,246	14,042,287	-	1,445,828	1,445,828
One to five years	27,926,024	344,539	981,085	367,945	29,619,593	-	419,768	419,768
Over five years	15,733,188	-	1,476,237	7,629	17,217,054	-	-	-
Grand Total	54,294,444	14,006,228	3,985,324	15,921,383	88,207,379	705,812	10,910,432	11,616,244

IMPAIRED CUSTOMER FINANCINGS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2012

	OVERDUE			PROVISIONS		ADJUSTMENTS		
INDUSTRY SEGMENT	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Specific AED '000	General AED '000	Write-offs AED '000	Write-Backs AED '000	Total Impaired Assets AED '000
Agriculture, Fishing & related activities	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining & Quarrying	-	118,081	118,081	100,368	-	-	-	17,713
Manufacturing	-	26,488	26,488	11,316	-	-	-	15,172
Electricity & Water	-	233,451	233,451	198,434	-	-	-	35,017
Construction	-	1,172,283	1,172,283	162,180	-	-	-	1,010,103
Trade	2,180	420,433	422,613	262,628	-	-	-	159,985
Transport, Storage & Communication	10,116	6,456	16,572	5,086	-	-	-	11,486
Financial Institutions	-	735,994	735,994	564,621	-	-	-	171,373
Services	1,027	155,121	156,148	254,578	-	-	-	(98,430)
Government	-	-	-	-	-	-	-	-
Retail/Consumer banking	317,293	1,226,114	1,543,407	708,719	-	-	-	834,688
All Others	-	27,979	27,979	14,100	-	-	-	13,879
Total	330,616	4,122,400	4,453,016	2,282,030	-	-	-	2,170,986

1. Agriculture, Fishing and Allied Activities includes cultivation of crops, dairy and poultry farming, fishing & other activities (sheep rearing, etc.)
2. Crude Oil, Gas, Mining and Quarrying include crude petroleum, natural gas and others
3. Manufacturing includes food, tobacco, beverages, textiles, leather, footwear, clothing, furniture, fixtures, other wood products, paper, paper products, printing presses, chemical, chemical products, petroleum refining, petrochemicals, basic metal products including aluminium, fabricated metal products, machinery, equipment, construction materials (brick tiles, etc.), cement, ship building, engineering work, saw mills, marble tiles and other manufacturing.
4. Construction includes construction of buildings, contractors and other construction
5. Trade includes wholesale trade in construction materials, consumer durables, motor vehicles, non-durables and retail trade.
6. Transport and communication includes taxies, and other land transport, water transport, air transport, warehousing, storage and others.
7. Financial Institutions include insurance companies, money and exchange dealers, NBFCS and other financial institutions
8. Services include hotel resturants, professional services, repair work (repair of motor vehicles, a/cs, etc.), recreation services (cinemas, sport club, etc.) and other services.
9. Government includes federal government and local government
10. Retail/consumer lending includes personal loan installments, residential mortgages loans, car loans, credit cards, other retails products, loans for investments in shares etc.

IMPAIRED CUSTOMER FINANCINGS BY GEOGRAPHY AS ON 31 DECEMBER 2012

	OVERDUE			PROVISIONS		ADJUSTMENTS		
Geographic Region	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Specific AED '000	General AED '000	Write-offs AED '000	Write-Backs AED '000	Total Impaired Assets AED '000
United Arab Emirates	330,615	3,199,110	3,529,725	1,451,199	-	-	-	2,078,526
Middle East	-	805,209	805,209	727,326	-	-	-	77,883
Europe	-	118,081	118,081	103,505	-	-	-	14,576
Others	-	-	-	-	-	-	-	-
Grand Total	330,615	4,122,400	4,453,015	2,282,030	-	-	-	2,170,985

Note: Jurisdictions should not be included more than once under the geographic region

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED CUSTOMER FINANCINGS FOR THE YEAR ENDED 31 DECEMBER 2012

	Description	AED '000
	Opening Balance of Provisions for Impaired Customer Financings	3,010,206
Add:	Charge for the year	87,523
	- Specific provisions	551,452
	- General provisions	52,854
Add:	Write-off of impaired loans to income statement	(516,783)
Less:	Recovery of loans loss provisions	-
Less:	Recovery of loans previously written-off	-
Less:	Write-back of provisions for loans	-
	Closing Balance of Provisions for impaired Loans	3,097,729

CREDIT RISK – GENERAL DISCLOSURE – STANDARDISED APPROACH AS ON 31 DECEMBER 2012

ASSET CLASSES	ON BALANCE SHEET	OFF BALANCE SHEET	CREDIT RISK MITIGATION (crm)			
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	Gross outstanding AED '000	Net exposure after credit conversion factors(CCF) AED '000	Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	Risk weighted assets AED '000
Claims on sovereigns	11,151,503	-	11,151,503	-	11,151,503	194,466
Claims on non-central government public sector entities (PSEs)	1,343,461	-	1,343,461	-	1,343,461	586,689
Claims in multi lateral development banks	235,376	-	235,376	-	235,376	-
Claims on banks	13,909,753	6,717	13,916,470	-	13,916,470	3,701,128
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	14,580,028	5,280,569	19,860,597	569,978	19,290,619	19,327,665
Claims included in the regulatory retail portfolio	20,082,782	429,029	20,511,811	116,954	20,394,857	15,735,747
Claims secured by residential property	2,082,266	-	2,082,266	-	2,082,266	806,793
Claims secured by commercial real estate	12,158,494	-	12,158,494	-	12,158,494	12,158,494
Past due loans	5,665,928	-	3,383,898	-	3,383,898	3,815,310
High risk categories	328,178	-	328,178	-	328,178	492,267
Other assets	6,669,610	-	6,669,610	-	6,669,610	4,306,300
Claims on securitised assets	-	-	-	-	-	-
Credit derivates (banks selling protection)	-	-	-	-	-	-
Total claims	88,207,379	5,716,315	91,641,664	686,932	90,954,732	61,124,859

CREDIT RISK – GENERAL DISCLOSURE – STANDARDISED APPROACH AS (RATED / UNRATED) ON 31 DECEMBER 2012

	Gross Credit Exposures					Exposures Subject to Deduction				
Asset Class	Rated AED '000	Unrated AED '000	Total AED '000	Post CRM AED '000	RWA Post CRM AED '000	Rated AED '000	Unrated AED '000	Total AED '000	Post CRM AED '000	RWA Post CRM AED '000
Claims on Sovereigns	54,928	11,096,575	11,151,503	11,151,503	194,466	-	-	-	-	-
Claims in Public Sector Entities	-	1,343,461	1,343,461	1,343,461	586,689	-	-	-	-	-
Claims on Multilateral Development Banks	235,376	-	235,376	235,376	-	-	-	-	-	-
Claims on Banks	11,753,086	2,163,384	13,916,470	13,916,470	3,701,128	-	-	-	-	-
Claims on securitites firms	-	-	-	-	-	-	-	-	-	-
Claims on Corporate	682,575	19,178,022	19,860,597	19,290,619	19,327,665	-	-	-	-	-
Regulatory & other retail exposure	-	20,511,811	20,511,811	20,394,857	15,735,747	-	-	-	-	-
Residential retail exposure	-	2,082,266	2,082,266	2,082,266	806,793	-	-	-	-	-
Commercial Real Estate	-	12,158,494	12,158,494	12,158,494	12,158,494	-	-	-	-	-
Past Due Loans	-	3,383,898	3,383,898	3,383,898	3,815,310	-	-	-	-	-
High Risk Categories	-	328,178	328,178	328,178	492,267	-	-	-	-	-
Other Assets	-	6,669,610	6,669,610	6,669,610	4,306,300	-	-	-	-	-
Claims on Securitised Assets	-	-	-	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-	-	-	-	-	-
Grand Total	12,725,965	78,915,699	91,641,664	90,954,732	61,124,859	-	-	-	-	-

CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED APPROACH AS ON 31 DECEMBER 2012

		Exposures AED '000	Risk Weighted Assets AED '000
	Gross Exposure prior to Credit Risk Mitigation	4,777,481	4,777,481
Less:	Exposure covered by on-balance sheet netting	-	-
Less:	Exposures covered by Eligible Financial Collateral	661,538	661,538
Less:	Exposures covered by Guarantees	50,788	25,394
Less:	Exposures covered by Credit Derivatives	-	-
	Net Exposures after Credit Risk Mitigation	**4,065,155**	**4,090,549**

CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDISED APPROACH AS ON 31 DECEMBER 2012

Market Risk	Amount AED '000
Interest rate risk	79,340
Equity position risk	-
Foreign exchange risk	129,396
Commodity risk	-
Total Capital Requirment	208,736

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2012

1) Details of equity position by type:

Type	Current Year Publicly Traded AED '000	Current Year Privately Held AED '000
Government	1,359,622	-
Financial Institutions	544,210	206,824
Trading and manufacturing	227,976	-
Construction and real estate	678,514	99,663
Energy	-	-
Others	-	21,690
Total	**2,810,322**	**328,177**

2) Realised and unrealised revaluation gains (losses) during the year:

	Amount AED '000
Realised gains (losses) from sales and liquidations	(1,385)
*Unrealised gains (losses) recognized in the balance sheet but not through profit and loss account	35,466
Total	**34,081**

3) Items in (2) above included in Tier1/Tier 2 Capital

Tier Capital	Amount AED '000
Amount included in Tier 1 Capital	(1,385)
Amount included in Tier 2 Capital	(155,700)
Total	**(157,085)**

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2012

Capital requirements by equity groupings:

Grouping	Capital Requirement AED '000
Government	350,948
Financial Institutions	451,396
Trading and manufacturing	227,976
Construction and real estate	844,668
Energy	-
Others	32,536
Total Capital requirement	**1,907,524**