Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements

30 September 2012

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
For the nine-month period ended 30 September 2012

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Independent auditors' report on review of condensed consolidated interim financial information

To the Shareholders
Commercial Bank of Dubai PSC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Commercial Bank of Dubai PSC ("the Bank") and its subsidiary CBD Financial Services LLC (collectively referred to as "the Group") as at 30 September 2012, the condensed consolidated interim statements of comprehensive income (comprising a condensed consolidated interim statement of comprehensive income and a separate condensed consolidated interim income statement), changes in equity and cash flows for the nine-month period then ended, and notes to the condensed consolidated interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 September 2012 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG
Vijendranath Malhotra
Registration No: 48 B

1 7 OCT 2012

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of financial position

As at 30 September 2012

	Note	**30 September 2012 AED'000 (Unaudited)**	31 December 2011 AED'000 Audited	30 September 2011 AED'000 (Unaudited)
ASSETS				
Cash and balances with Central Bank	*5*	**5,464,255**	5,376,083	5,450,051
Due from banks	*6*	**1,477,710**	1,700,862	1,677,170
Loans and advances and Islamic financing	*7*	**26,826,838**	26,815,087	26,298,684
Investment securities	*8*	**2,488,352**	1,911,842	1,842,121
Investment properties		**168,003**	173,823	175,026
Property and equipment		**436,985**	452,318	441,849
Other assets		**2,255,507**	1,811,305	1,820,044
Total assets		**39,117,650**	38,241,320	37,704,945
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		**239,404**	326,066	284,842
Customers' deposits and Islamic customers' deposits	*9*	**27,939,235**	28,423,430	27,962,186
Medium term borrowing	*10*	**2,189,141**	1,631,501	1,629,435
Other liabilities		**2,028,827**	1,538,710	1,546,849
Total liabilities		**32,396,607**	31,919,707	31,423,312
EQUITY				
Share capital	*11*	**2,038,352**	1,941,287	1,941,287
Legal reserve		**1,379,683**	1,379,683	1,379,683
Capital reserve		**38,638**	38,638	38,638
General reserve		**1,100,000**	1,100,000	1,100,000
Cumulative changes in fair values of AFS investments		**87,653**	31,419	36,377
Proposed cash dividend		-	388,257	-
Proposed directors' remuneration		-	11,000	-
Retained earnings		**2,076,717**	1,431,329	1,785,648
Total equity		**6,721,043**	6,321,613	6,281,633
Total liabilities and equity		**39,117,650**	38,241,320	37,704,945

The condensed consolidated interim financial statements were approved by the Board of Directors on 17th October 2012.

Mr. Saeed Ahmed Ghobash
Chairman

Mr. Peter Baltussen
Chief Executive Officer

The attached notes on pages 7 to 18 form part of these condensed consolidated interim financial statements.
The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Condensed consolidated interim income statement

For the nine-month period ended 30 September 2012

	Note	Nine-month period ended **30 September 2012 AED'000 (Unaudited)**	Nine-month period ended 30 September 2011 AED'000 (Unaudited)	Three-month period ended **30 September 2012 AED'000 (Unaudited)**	Three-month period ended 30 September 2011 AED'000 (Unaudited)
Interest income and income from Islamic financing		**1,275,205**	1,337,210	**426,952**	430,287
Interest expense and distributions to Islamic depositors		**(260,230)**	(334,433)	**(84,529)**	(98,496)
Net interest income and net income from Islamic financing		**1,014,975**	1,002,777	**342,423**	331,791
Net fees and commission income		**250,127**	264,489	**77,349**	83,768
Net gains from foreign exchange and derivatives		**93,324**	80,906	**30,144**	27,428
Net gains / (losses) from investments at fair value through profit or loss - held for trading		**1,309**	(882)	**266**	(407)
Net gains from sale of available-for-sale investments		**5,644**	9,953	**2,782**	7,827
Dividend and other investment income		**8,322**	9,710	**170**	(58)
Other income		**22,549**	23,779	**6,974**	9,013
Total operating income before provisions		**1,396,250**	1,390,732	**460,108**	459,362
Impairment allowances on loans and advances and Islamic financing	*7*	**(295,584)**	(227,306)	**(101,006)**	(73,677)
Recoveries	*7*	**53,523**	30,823	**35,318**	9,303
Net operating income		**1,154,189**	1,194,249	**394,420**	394,988
General and administrative expenses		**(376,132)**	(373,469)	**(128,177)**	(126,922)
Depreciation and amortization		**(38,521)**	(43,618)	**(12,195)**	(14,136)
Total operating expenses		**(414,653)**	(417,087)	**(140,372)**	(141,058)
Net profit for the period		**739,536**	777,162	**254,048**	253,930
Basic and diluted earnings per share	*12*	**AED 0.36**	AED 0.38	**AED 0.12**	AED 0.12

The attached notes on pages 7 to 18 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of comprehensive income

For the nine-month period ended 30 September 2012

	Nine-month period ended		Three-month period ended	
	30 September 2012 AED'000 (Unaudited)	30 September 2011 AED'000 (Unaudited)	**30 September 2012 AED'000 (Unaudited)**	30 September 2011 AED'000 (Unaudited)
Net profit for the period	**739,536**	777,162	**254,048**	253,930
Other comprehensive income:				
Changes in fair value of effective portion of cash flow hedge	**-**	20,702	**-**	5,933
Changes in available-for-sale investments:				
Realised gains on sale of available-for-sale investments	**(5,644)**	(9,953)	**(2,782)**	(7,827)
Amortisation of reclassified investments	**15,713**	14,235	**2,303**	4,761
Revaluation of available-for-sale investments	**46,165**	(4,197)	**42,715**	(22,405)
Net change in available-for-sale investments	**56,234**	85	**42,236**	(25,471)
Other comprehensive income for the period	**56,234**	20,787	**42,236**	(19,538)
Total comprehensive income for the period	**795,770**	797,949	**296,284**	234,392

The attached notes on pages 7 to 18 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of changes in equity

For the nine-month period ended 30 September 2012

	Share capital AED'000	Legal reserve AED'000	Capital reserve AED'000	General reserve AED'000	Cumulative changes in fair values of AFS investments AED'000	Cumulative changes in fair values of hedge instruments AED'000	Retained earnings AED'000	Proposed distributions AED'000	Total AED'000
At 1 January 2011	1,941,287	1,379,683	38,638	1,100,000	36,292	(20,702)	1,008,486	395,257	5,878,941
Transactions with owners, recorded directly in equity:									
Cash dividend paid for 2010 (20%)	-	-	-	-	-	-	-	(388,257)	(388,257)
Directors' remuneration paid for 2010	-	-	-	-	-	-	-	(7,000)	(7,000)
Comprehensive income									
Net profit for the period	-	-	-	-	-	-	777,162	-	777,162
Other comprehensive income for the period	-	-	-	-	85	20,702	-	-	20,787
Total comprehensive income	-	-	-	-	85	20,702	777,162	-	797,949
At 30 September 2011 (Unaudited)	**1,941,287**	**1,379,683**	**38,638**	**1,100,000**	**36,377**	**-**	**1,785,648**	**-**	**6,281,633**
At 1 January 2012	**1,941,287**	**1,379,683**	**38,638**	**1,100,000**	**31,419**	**-**	**1,431,329**	**399,257**	**6,321,613**
Transactions with owners, recorded directly in equity:									
Cash dividend paid for 2011 (20%)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(388,257)**	**(388,257)**
Bonus shares issued for 2011 (5%)	**97,065**	**-**	**-**	**-**	**-**	**-**	**(97,065)**	**-**	**-**
Directors' remuneration paid for 2011	**-**	**-**	**-**	**-**	**-**	**-**	**2,917**	**(11,000)**	**(8,083)**
Comprehensive income									
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**739,536**	**-**	**739,536**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**56,234**	**-**	**-**	**-**	**56,234**
Total comprehensive income	**-**	**-**	**-**	**-**	**56,234**	**-**	**739,536**	**-**	**795,770**
At 30 September 2012 (Unaudited)	**2,038,352**	**1,379,683**	**38,638**	**1,100,000**	**87,653**	**-**	**2,076,717**	**-**	**6,721,043**

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The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Condensed consolidated interim statement of cash flows

For the nine-month period ended 30 September 2012

	Note	30 September 2012 AED'000 (Unaudited)	30 September 2011 AED'000 (Unaudited)
OPERATING ACTIVITIES			
Profit for the period		**739,536**	777,162
Adjustments for:			
Depreciation and amortization		**38,521**	43,618
Loss / (income) on disposal of property and equipment		**116**	(30)
Dividend net of investment losses		**(4,526)**	(9,710)
Net unrealised (gains) / losses on investments at fair value through profit or loss - held for trading net of forex translation		**(93)**	528
Realised gains on sale of investments		**(6,314)**	(9,715)
Net unrealized income on derivatives		**(479)**	(390)
Directors' remuneration paid		**(8,083)**	(7,000)
		758,678	794,463
Increase in statutory reserve with the Central Bank		**(185,948)**	(151,478)
(Increase) / decrease in loans and advances and Islamic financing		**(11,751)**	866,304
Decrease / (increase) in other assets		**8,958**	(182,033)
Decrease in due from banks with original maturity of more than three months		**4,315**	-
Decrease in customers' deposits and Islamic customers' deposits		**(484,195)**	(1,247,476)
Increase / (decrease) in other liabilities		**38,227**	(70,638)
Increase in due to banks with original maturity of more than three months		**-**	36,730
Net cash flows from operating activities		**128,284**	45,872
INVESTING ACTIVITIES			
Purchase of investments		**(993,710)**	(288,991)
Purchase of property and equipment		**(17,555)**	(43,440)
Increase in investment properties		**(170)**	(878)
Dividend income		**7,573**	10,070
Proceeds from sale of investments		**476,002**	165,455
Proceeds from sale of property and equipment		**241**	330
Net cash flows used in investing activities		**(527,619)**	(157,454)
FINANCING ACTIVITIES			
Dividends paid		**(388,257)**	(388,257)
Increase in medium term borrowing		**557,640**	162,779
Net cash flows from/(used in) financing activities		**169,383**	(225,478)
Net decrease in cash and cash equivalents		**(229,952)**	(337,060)
Cash and cash equivalents at 1 January		**5,047,093**	5,559,115
Cash and cash equivalents at the end of the period	*13*	**4,817,141**	5,222,055

The attached notes on pages 7 to 18 form part of these condensed consolidated interim financial statements.
The review report of the Auditors is set out on page 1.

1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates in 1969 and is registered as a Public Shareholding Company (PSC) in accordance with Federal Law No. 8 of 1984 (as amended). The Bank is listed on the Dubai Financial Market.

The condensed consolidated interim financial statements of the Bank for the nine-month period ended 30 September 2012 comprise the Bank and its subsidiary "CBD Financial Services LLC" (together referred to as "the Group"). The subsidiary was incorporated on 9 March 2005 in Dubai, United Arab Emirates and is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) and commenced its operations from 9 October 2005. The Bank effectively holds 100% interest in its subsidiary. The Bank's principal activity is commercial banking while that of its subsidiary is to act as a broker for shares and bonds.

The registered address of the Group is Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 Interim Financial Reporting. These condensed consolidated interim financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2011.

(b) Use of estimates and judgment

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies and methods of computation used for the preparation of last published annual audited consolidated financial statements as at and for the year ended 31 December 2011.

4. RISK GOVERNANCE AND FINANCIAL RISK MANAGEMENT

The Group's Risk Governance and Financial Risk Management objectives, policies and procedures are consistent with those disclosed in the annual audited consolidated financial statements as at and for the year ended 31 December 2011.

5. CASH AND BALANCES WITH CENTRAL BANK

	30 September 2012 AED'000 (Unaudited)	31 December 2011 AED'000 Audited
Cash on hand	**422,456**	461,525
Balances with Central Bank		
Deposits and other balances	**456,380**	115,087
Statutory reserves	**1,885,419**	1,699,471
Negotiable certificates of deposit	**2,700,000**	3,100,000
	5,464,255	5,376,083

All the above balances are held in accounts within UAE.

6. DUE FROM BANKS

	30 September 2012 AED'000 (Unaudited)	31 December 2011 AED'000 Audited
Current and demand deposits	**352,156**	113,798
Placements	**1,125,554**	1,587,064
	1,477,710	1,700,862

Due from banks include current and demand deposits of AED 352.1 million *(31 December 2011: AED 113.8 million)* and AED 342.1 million *(31 December 2011: AED 119 million)* placements with banks outside UAE.

7. LOANS AND ADVANCES AND ISLAMIC FINANCING

The composition of the loans and advances and Islamic financing portfolio is as follows:

	30 September 2012 AED'000 (Unaudited)	31 December 2011 AED'000 Audited
Loans and advances		
Overdrafts	**6,071,192**	6,531,911
Loans	**20,089,232**	19,704,353
Advances against letters of credit and trust receipts	**854,623**	889,065
Bills discounted	**689,133**	848,762
Gross loans and advances	**27,704,180**	27,974,091
Islamic financing		
Murabaha	**557,296**	314,154
Ijara	**593,354**	280,967
Musharaka	**80,000**	-
Others	**39,085**	26,947
Gross Islamic financing	**1,269,735**	622,068
Gross loans and advances and Islamic financing	**28,973,915**	28,596,159
Less: provision for impairment losses on loans and advances	**(2,142,772)**	(1,779,334)
Less: provision for impairment losses on Islamic financing	**(4,305)**	(1,738)
Total provisions for impairment losses	**(2,147,077)**	(1,781,072)
Net loans and advances and Islamic financing	**26,826,838**	26,815,087

7. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)

Analysis by sector	**30 September 2012 AED'000 (Unaudited)**	31 December 2011 AED'000 Audited
Commercial and business:-		
Agriculture & allied activities	**30,523**	36,965
Mining & quarrying	**101,586**	268,566
Manufacturing	**1,218,133**	1,335,861
Construction & real estate	**3,952,879**	4,280,728
Trade	**7,373,139**	7,637,496
Transport & communication	**388,866**	316,789
Services	**4,172,441**	4,285,322
Business and investment	**6,250,714**	5,639,008
Total commercial and business	**23,488,281**	23,800,735
Banks and financial institutions	**336,806**	319,605
Government and public sector entities	**2,663,367**	1,968,884
Personal – schematic	**2,067,557**	2,210,682
Others	**417,904**	296,253
Gross loans and advances and Islamic financing	**28,973,915**	28,596,159
Less: Provisions for impairment losses	**(2,147,077)**	(1,781,072)
Net loans and advances and Islamic financing	**26,826,838**	26,815,087

	30 September 2012 AED'000 (Unaudited)	31 December 2011 AED'000 Audited
The movement in provisions for impairment losses is as follows:		
Balance at 1 January	**1,781,072**	1,255,502
Amounts written off during the period/year	**(11,885)**	(67,464)
Charge for the period / year:		
- specific	**292,884**	506,537
- collective	**2,700**	5,500
Interest not recognized	**139,284**	129,204
Recoveries	**(53,523)**	(41,689)
Amortization of interest impairment losses	**(3,455)**	(6,518)
	2,147,077	1,781,072

8. INVESTMENT SECURITIES

30 September 2012(Unaudited)	**Domestic AED'000**	**Regional AED'000**	**International AED'000**	**Total AED'000**
Held for trading				
Equities	**575**	**-**	**425**	**1,000**
Fixed rate government securities	**3,526**	**-**	**-**	**3,526**
Available-for-sale				
Equities	**189,166**	**-**	**-**	**189,166**
Fund of funds	**30,520**	**63,403**	**-**	**93,923**
Fixed rate securities				
- Government	**594,584**	**144,485**	**-**	**739,069**
- Others	**490,055**	**106,832**	**-**	**596,887**
Floating rate non government securities	**157,644**	**61,339**	**-**	**218,983**
Held-to-maturity				
Fixed rate government securities	**177,545**	**-**	**-**	**177,545**
Floating rate securities				
- Government	**432,992**	**-**	**-**	**432,992**
- Others	**35,261**	**-**	**-**	**35,261**
Total investment securities	**2,111,868**	**376,059**	**425**	**2,488,352**
31 December 2011 (Audited)				
Held for trading				
Fixed rate securities				
- Government	11,313	-	-	11,313
- Others	3,710	-	-	3,710
Floating rate non government securities	7,373	-	-	7,373
Available-for-sale				
Equities	215,479	-	-	215,479
Fund of funds	21,273	81,413	-	102,686
Fixed rate securities				
- Government	295,261	-	36,914	332,175
- Others	84,571	-	-	84,571
Floating rate non government securities	175,130	59,778	-	234,908
Held-to-maturity				
Fixed rate government securities	174,524	-	-	174,524
Floating rate securities				
- Government	709,842	-	-	709,842
- Others	35,261	-	-	35,261
Total investment securities	1,733,737	141,191	36,914	1,911,842

9. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS

Customers' deposits	**30 September 2012 AED'000 (Unaudited)**	31 December 2011 AED'000 Audited
Current and demand accounts	**10,645,214**	9,701,753
Savings accounts	**1,213,941**	1,120,794
Time deposits	**12,865,520**	14,587,938
	24,724,675	25,410,485
Islamic customers' deposits		
Current and demand accounts	**422,011**	320,979
Mudaraba saving	**262,305**	163,620
Investment deposits and Wakala	**2,530,244**	2,528,346
	3,214,560	3,012,945
Total customers' deposits and Islamic customers' deposits	**27,939,235**	28,423,430

Subordinated term loans

Customers' deposits include deposits received by the Group in 2008, aggregating to AED 1,841.5 million from UAE Ministry of Finance. On 9 December 2009 (the re-categorization date), the Group entered into an agreement with UAE Ministry of Finance, through which these deposits are now subordinated to other claims and is treated as lower Tier 2 capital in agreement with the UAE Central Bank. The loan is for 7 years and carries interest rate which ranges from 4% per annum to 6.5% per annum payable quarterly from the date of re-categorization.

10. MEDIUM TERM BORROWING

Syndicated loan

In August 2011, the Group entered into a club deal of USD 450 million to replace the syndicated loan arrangement of USD 400 million for a term of 3 years with an option to roll over on a quarterly or semi-annual basis. The arrangement carries interest at the rate of 3 month LIBOR plus 175 basis points payable on a quarterly basis.

Repurchase agreements

In July 2012, the Group entered into Repo transactions to obtain financing against the sale of debt securities, amounting to USD 150.1 million with arrangements to repurchase them at a fixed future date in July 2017.

11. EQUITY

Share capital

The issued and fully paid up ordinary share capital as at 30 September 2012 comprised 2,038,351,976 ordinary shares of AED 1 each (31 December 2011: 1,941,287,596 shares of AED 1 each).

Bonus issue

At the Annual General Meeting (AGM) held on 14 March 2012, the Shareholders approved 20% cash dividend and bonus issue of 5% in the ratio of 1 bonus share for every 20 shares held as opposed to 20% cash dividend proposed by the Board of Directors. Weighted average number of shares outstanding has been retrospectively adjusted to include the bonus shares approved in the AGM (refer to note 12).

12. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share is based on the Group's profit for the nine and three month period ended 30 September 2012 attributable to the shareholders amounting to AED 739.5 million and AED 254.0 million respectively *(nine and three month period ended 30 September 2011: AED 777.2 million and AED 253.9 million respectively)*, and on the weighted average number of shares in issue totaling 2,038,351,976 (30 September 2011: 2,038,351,976).

13. CASH AND CASH EQUIVALENTS

	30 September 2012 AED'000 (Unaudited)	30 September 2011 AED'000 (Unaudited)
Cash in hand	**422,455**	473,707
Balances with the Central Bank	**456,380**	319,290
Negotiable certificate of deposits with the Central Bank	**2,700,000**	3,000,000
Due from banks with original maturities less than three months	**1,477,710**	1,677,170
	5,056,545	5,470,167
Due to banks with original maturities less than three months	**(239,404)**	(248,112)
	4,817,141	5,222,055

14. CONTINGENT LIABILITIES AND COMMITMENTS

The Group in the ordinary course of business enters into various types of transactions that involve undertaking certain commitments such as letters of credit, guarantees and undrawn loan commitments.

	30 September 2012 AED'000 (Unaudited)	31 December 2011 AED'000 Audited
Contingent liabilities:		
Letters of credit	**1,117,263**	1,412,956
Guarantees	**5,835,197**	6,669,008
	6,952,460	8,081,964
Credit commitments:		
Undrawn commitments to extend credit	**9,313,946**	8,646,291
Total contingent liabilities and credit commitments	**16,266,406**	16,728,255

15. SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure that are regularly reviewed by the Management Committee in order to allocate resources to the segment and to assess its performance.

Business segments pay to and receive interest from the Central Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Business segments

Corporate banking	Includes loan and other credit facilities, current accounts and deposits and trade finance products to large corporate, commercial (mid-sized) clients and small commercial clients (business).
Consumer banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to high net-worth (al dana), mid-tier clients (personal) and modest income group (direct).
Treasury and investments	Undertakes balance sheet management deals in derivatives for trading and for risk management purposes and manages the Group's proprietary investment portfolio.
Islamic Banking	Includes Sharia compliant financing, deposits and trade finance products to all sub segments of clients defined under corporate and consumer banking.

Interest is charged or credited to business segments and branches at match funding transfer pricing rates which approximate the replacement cost of funds. Other central costs are allocated to business segments on a reasonable basis.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

15. SEGMENTAL REPORTING (CONTINUED)

Segmental analysis for the nine-month period was as follows:

	Corporate banking AED'000	Consumer banking AED'000	Treasury and investments AED'000	Islamic Banking AED'000	Total AED'000
30 September 2012 (Unaudited)					
Assets	**26,082,515**	**2,261,123**	**7,423,931**	**3,350,081**	**39,117,650**
Liabilities	**20,777,207**	**5,891,685**	**2,438,612**	**3,289,103**	**32,396,607**
31 December 2011 (Audited)					
Assets	26,007,345	2,578,311	6,530,996	3,124,668	38,241,320
Liabilities	20,823,013	6,053,200	1,968,235	3,075,259	31,919,707
30 September 2012 (Unaudited)					
Net interest income and Income from Islamic financing	**831,889**	**129,351**	**20,351**	**33,384**	**1,014,975**
Other income	**266,876**	**42,326**	**66,112**	**5,961**	**381,275**
Total income	**1,098,765**	**171,677**	**86,463**	**39,345**	**1,396,250**
Allocated cost	**248,153**	**89,568**	**11,403**	**27,008**	**376,132**
Impairment allowances net of recoveries	**239,475**	**-**	**-**	**2,586**	**242,061**
Depreciation and amortization	**25,513**	**11,107**	**707**	**1,194**	**38,521**
Total expenses	**513,141**	**100,675**	**12,110**	**30,788**	**656,714**
Net profit for the period	**585,624**	**71,002**	**74,353**	**8,557**	**739,536**
30 September 2011 (Unaudited)					
Net interest income and Income from Islamic Financing	806,747	142,831	17,484	35,715	1,002,777
Other income	292,874	29,304	63,178	2,599	387,955
Total income	1,099,621	172,135	80,662	38,314	1,390,732
Allocated cost	259,584	77,329	10,855	25,701	373,469
Impairment allowances net of recoveries	143,793	50,969	-	1,721	196,483
Depreciation and amortization	30,362	11,405	650	1,201	43,618
Total expenses	433,739	139,703	11,505	28,623	613,570
Net profit for the period	665,882	32,432	69,157	9,691	777,162

16. RELATED PARTY TRANSACTIONS

	Directors and key management personnel		Other related parties	
	30 September 2012 AED'000 (Unaudited)	31 December 2011 AED'000 Audited	**30 September 2012 AED'000 (Unaudited)**	31 December 2011 AED'000 Audited
Loans and advances	**72,822**	173,719	**741,318**	563,609
Deposits	**13,776**	25,705	**1,493,225**	595,307

	30 September 2012 AED'000 (Unaudited)	30 September 2011 AED'000 (Unaudited)	**30 September 2012 AED'000 (Unaudited)**	30 September 2011 AED'000 (Unaudited)
Interest income	**2,976**	6,262	**21,273**	26,461
Interest expense	**16**	39	**10,012**	6,687

No provisions for impairment have been recognised in respect of loans given to related parties *(31 December 2011: NIL).*

The loans issued to directors during the nine-month period ended 30 September 2012 are unsecured and repayable monthly over a maximum period of 5 years *(31 December 2011: 5 years)* and carry interest at the rates comparable to the third party loans.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Key management compensation

	30 September 2012 AED'000 (Unaudited)	30 September 2011 AED'000 (Unaudited)
Salaries and other short-term benefits	**9,799**	16,350
Post retirement benefits	**400**	712

17. CAPITAL ADEQUACY

The Group's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Group have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period. The capital adequacy ratio should be a minimum of 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% as mandated by the Central Bank.

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

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

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

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges, general collective provision and subordinated term loans.

  The following limits have been applied for Tier 2 capital:

  – Total tier 2 capital shall not exceed 67% of tier 1 capital;
  – Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
  – General Collective provision shall not exceed 1.25% of total risk weighted assets.

17. CAPITAL ADEQUACY (CONTINUED)

The table below summarizes the composition of regulatory capital of the Group:

	Basel II		Basel I	
	30 September 2012 AED'000 (Unaudited)	31 December 2011 AED'000 Audited	**30 September 2012 AED'000 (Unaudited)**	31 December 2011 AED'000 Audited
Core tier 1 capital				
Share capital	**2,038,352**	1,941,287	**2,038,352**	1,941,287
Legal reserve	**1,379,683**	1,379,683	**1,379,683**	1,379,683
General reserve	**1,100,000**	1,100,000	**1,100,000**	1,100,000
Retained earnings	**2,076,717**	1,431,329	**2,076,717**	1,431,329
Tier 1 Capital	**6,594,752**	5,852,299	**6,594,752**	5,852,299
Upper tier 2 capital				
Fair value reserve	**39,444**	14,139	**39,444**	14,139
Collective provisions	**432,766**	430,066	**-**	-
	472,210	444,205	**39,444**	14,139
Lower tier 2 capital				
Subordinated term loans	**1,473,221**	1,841,526	**1,473,221**	1,841,526
Tier 2 capital	**1,945,431**	2,285,731	**1,512,665**	1,855,665
Deductions from Tier 1 & Tier 2				
Investments in un consolidated subsidiaries	**(10,000)**	(10,000)	**(10,000)**	(10,000)
Total capital base	**8,530,183**	8,128,030	**8,097,417**	7,697,964
Risk weighted assets (RWA) Pillar 1				
On-balance sheet	**-**	-	**27,236,122**	26,320,447
Off-balance sheet	**-**	-	**3,899,160**	5,118,205
Credit risk	**32,473,427**	32,426,824	**-**	-
Market risk	**2,125**	25,449	**-**	-
Operational risk	**2,297,075**	2,757,596	**-**	-
Risk weighted assets	**34,772,627**	35,209,869	**31,135,282**	31,438,652
Tier 1 ratio	**18.97%**	16.62%	**21.18%**	18.61%
Capital adequacy ratio (Pillar 1)	**24.53%**	23.08%	**26.01%**	24.49%

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these condensed consolidated interim financial statements.