Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2012

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Independent Auditors' Report

The Shareholders
Commercial Bank of Dubai PSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Commercial Bank of Dubai PSC ("the Bank") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income (comprising a separate consolidated income statement and consolidated statement of comprehensive income), changes in equity and cash flows for the year then ended, and notes, comprising 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 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.

Auditors' 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 our 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, we consider 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 consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law no.8 of 1984 (as amended), Union Law no.10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Group; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2012, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG
Vijendranath Malhotra
Registration number 48 B

06 FEB 2013

Commercial Bank of Dubai PSC

Consolidated statement of financial position

As at 31 December 2012

	Note	2012 AED'000	2011 AED'000
ASSETS			
Cash and balances with Central Bank	*5*	**5,563,270**	5,376,083
Due from banks	*6*	**1,827,518**	1,700,862
Loans and advances and Islamic financing	*7*	**27,009,239**	26,815,087
Investment securities	*8*	**2,457,926**	1,911,842
Investment properties	*9*	**166,115**	173,823
Property and equipment	*10*	**432,168**	452,318
Other assets	*11*	**2,012,996**	1,810,469
TOTAL ASSETS		**39,469,232**	38,240,484
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	*12*	**434,864**	326,066
Customers' deposits and Islamic customers' deposits	*13*	**28,051,989**	28,423,430
Medium term borrowing	*14*	**2,191,207**	1,631,501
Other liabilities	*15*	**1,962,393**	1,537,874
TOTAL LIABILITIES		**32,640,453**	31,918,871
EQUITY			
Share capital	*16*	**2,038,352**	1,941,287
Legal reserve	*16*	**1,379,683**	1,379,683
Capital reserve	*16*	**38,638**	38,638
General reserve	*16*	**1,100,000**	1,100,000
Cumulative changes in fair values of AFS investments	*16*	**82,087**	31,419
Proposed cash dividend	*16*	**611,506**	388,257
Proposed directors' remuneration	*16*	**11,000**	11,000
Retained earnings		**1,567,513**	1,431,329
TOTAL EQUITY		**6,828,779**	6,321,613
TOTAL LIABILITIES AND EQUITY		**39,469,232**	38,240,484

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 23rd of January 2013.

The attached notes form part of these consolidated financial statements.

Mr. Saeed Ahmed Ghobash
Chairman

Mr. Peter Baltussen
Chief Executive Officer

Commercial Bank of Dubai PSC

Consolidated income statement

For the year ended 31 December 2012

	Note	**2012 AED'000**	2011 AED'000
Interest income and income from Islamic financing	*17*	**1,675,351**	1,768,712
Interest expense and distributions to Islamic depositors	*18*	**(343,076)**	(427,335)
Net interest income and net income from Islamic financing		**1,332,275**	1,341,377
Fees and commission income		**360,148**	381,181
Fees and commission expense		**(22,658)**	(18,763)
Net fees and commission income	*19*	**337,490**	362,418
Net gains from foreign exchange and derivatives		**124,326**	112,222
Net gains / (losses) from investments at fair value through profit or loss - held for trading	*20*	**1,609**	(994)
Net gains from sale of available-for-sale investments		**16,152**	10,722
Dividend income	*21*	**7,576**	10,070
Other income		**32,505**	26,877
Total operating income		**1,851,933**	1,862,692
Impairment allowances on loans and advances and Islamic financing		**(489,761)**	(512,037)
Recoveries		**62,865**	41,689
Total net income		**1,425,037**	1,392,344
General and administrative expenses	*22*	**(521,741)**	(512,918)
Depreciation and amortization	*9&10*	**(50,458)**	(57,326)
Total operating expenses		**(572,199)**	(570,244)
Net profit for the year		**852,838**	822,100
Basic and diluted earnings per share	*24*	**AED 0.42**	AED 0.40

The attached notes on pages 8 to 78 form part of these consolidated financial statements.
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Appropriations have been reflected in the consolidated statement of changes in equity.

The report of the Auditors is set out on page 2.

Commercial Bank of Dubai PSC

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	2012 AED'000	2011 AED'000
Net profit for the year	**852,838**	822,100
Other comprehensive income:		
Changes in fair value of effective portion of cash flow hedge	**-**	20,702
Changes in available-for-sale investments:		
Realized gains on sale of available-for-sale investments	**(16,152)**	(10,722)
Amortization of reclassified investments	**18,023**	19,009
Revaluation of available-for-sale investments	**48,797**	(13,160)
Net change in available-for-sale investments	**50,668**	(4,873)
Other comprehensive income for the year	**50,668**	15,829
Total comprehensive income for the year	**903,506**	837,929

The attached notes on pages 8 to 78 form part of these consolidated financial statements.

The report of the Auditors is set out on page 2.

Commercial Bank of Dubai PSC

Consolidated statement of changes in equity

For the year ended 31 December 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 distribution 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)
Proposed cash dividend for 2011 (20%)	-	-	-	-	-	-	(388,257)	388,257	-
Directors' remuneration paid for 2010	-	-	-	-	-	-	-	(7,000)	(7,000)
Proposed directors' remuneration for 2011	-	-	-	-	-	-	(11,000)	11,000	-
Total comprehensive income									
Net profit for the year	-	-	-	-	-	-	822,100	-	822,100
Other comprehensive income for the year	-	-	-	-	(4,873)	20,702	-	-	15,829
Total comprehensive income	-	-	-	-	(4,873)	20,702	822,100	-	837,929
At 31 December 2011	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%) note 16	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(388,257)**	**(388,257)**
Bonus shares issued for 2011 (5%) note 16	**97,065**	**-**	**-**	**-**	**-**	**-**	**(97,065)**	**-**	**-**
Proposed cash dividend for 2012 (30%) note 16	**-**	**-**	**-**	**-**	**-**	**-**	**(611,506)**	**611,506**	**-**
Directors' remuneration paid for 2011	**-**	**-**	**-**	**-**	**-**	**-**	**2,917**	**(11,000)**	**(8,083)**
Proposed directors' remuneration for 2012	**-**	**-**	**-**	**-**	**-**	**-**	**(11,000)**	**11,000**	**-**
Total comprehensive income									
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**852,838**	**-**	**852,838**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**50,668**	**-**	**-**	**-**	**50,668**
Total comprehensive income	**-**	**-**	**-**	**-**	**50,668**	**-**	**852,838**	**-**	**903,506**
At 31 December 2012	**2,038,352**	**1,379,683**	**38,638**	**1,100,000**	**82,087**	**-**	**1,567,513**	**622,506**	**6,828,779**

The attached notes on pages 8 to 78 form part of these consolidated financial statements.

The report of the Auditors is set out on page 2.

Commercial Bank of Dubai PSC

Consolidated statement of cash flows

For the year ended 31 December 2012

		2012 AED'000	2011 AED'000
OPERATING ACTIVITIES			
Profit for the year		**852,838**	822,100
Adjustments for:			
Depreciation and amortization		**50,458**	57,326
Loss / (gain) on disposal of properties and equipment		**116**	(30)
Dividend revenue net of investment losses		**(2,568)**	(6,286)
Net unrealized (gains) / losses on investments at fair value through profit or loss - held for trading net of forex translation		**(181)**	472
Realized gains on sale of investments		**(16,936)**	(9,963)
Net unrealized gains on derivatives		**(800)**	(1,328)
Directors' remuneration paid		**(8,083)**	(7,000)
		874,844	855,291
Increase in statutory reserve with the Central Bank		**(173,108)**	(193,896)
(Increase) /decrease in loans and advances and Islamic financing		**(194,152)**	349,901
Decrease / (increase) in other assets		**64,448**	(207,262)
Decrease / (increase) in due from banks with original maturity of more than three months		**4,315**	(4,315)
Decrease in customers' deposits and Islamic customers' deposits		**(371,441)**	(786,232)
Increase /(decrease) in other liabilities		**159,135**	(43,870)
Net cash flow from / (used in) operating activities		**364,041**	(30,383)
INVESTING ACTIVITIES			
Purchase of investments		**(1,080,218)**	(424,935)
Purchase of property and equipment		**(23,079)**	(68,231)
Increase in investment properties (net)		**(170)**	(1,534)
Dividend income		**7,576**	10,070
Proceeds from sale of investments		**596,120**	223,600
Proceeds from sale of property and equipment		**533**	2,803
Net cash flow used in investing activities		**(499,238)**	(258,227)
FINANCING ACTIVITIES			
Increase in medium term borrowing		**559,706**	164,845
Dividend paid		**(388,257)**	(388,257)
Net cash flow from / (used in) financing activities		**171,449**	(223,412)
Net increase / (decrease) in cash and cash equivalents		**36,252**	(512,022)
Cash and cash equivalents at 1 January		**5,047,093**	5,559,115
Cash and cash equivalents at 31 December	*Note 25*	**5,083,345**	5,047,093

The attached notes on pages 8 to 78 form part of these consolidated financial statements.

The report of the Auditors is set out on page 2.

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 consolidated financial statements of the Bank for the year ended 31 December 2012 comprise the results of 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). The Bank holds a 100% interest in its subsidiary.

The Bank is listed on the Dubai Financial Market. The Bank's principal activity is commercial banking while that of its subsidiary is broking for local 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E.

Along with these consolidated financial statements, the Group has presented Basel II Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank. The adoption of Basel II Pillar 3 guidelines has impacted the type and amount of disclosures made in these consolidated financial statements, but has no impact on the reported profits or financial position of the Group. In accordance with the requirements of Basel II, the Group has provided full comparative information.

As required by the UAE Securities and Commodities Authority (SCA) notification number 85/2009 dated January 6, 2009, the Group's exposure in cash and advances with Central Bank, Due from Banks and Investment Securities outside the UAE have been presented under the respective notes.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss-held for trading are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged; and
- Granted land which was valued at the market value on the date of grant.

2. BASIS OF PREPARATION (continued)

c) Functional and presentation currency

The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's "functional currency", rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity are disclosed in Note 3 (w).

e) Basis of consolidation

(i) Subsidiary

The subsidiary is an entity that is controlled by the Bank. Control exists when the Bank has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency transactions gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements.

a) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party. The Group classifies its financial assets at initial recognition in the following categories:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(i) Classification

- Financial assets at fair value through profit or loss (FVPL): This category has the following two sub-categories:

  Financial assets held for trading

  Financial assets held for trading are recorded at fair value. Fair value changes are recognized in consolidated income statement.

  Designated to be fair valued through profit or loss at inception

  The Group designates financial assets at fair value through profit or loss in the following circumstances:
  - The assets are managed, evaluated and reported internally on a fair value basis.
  - The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
  - The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

- Loans and advances: Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. These arise when the Group provides money directly to the borrower with no intention of trading the receivable.

- Held-to-maturity (HTM): Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of and the ability to hold to maturity.HTM assets are carried at amortized cost less impairment loss if any.

  Sale of HTM assets is allowed only under the following circumstances:

  - The investment is close enough to maturity as to have no impact on fair value;
  - The principal is substantially received;
  - Isolated events beyond the Group's control;
  - Significant credit deterioration;
  - Major business combination or disposal; or
  - Increase in regulatory capital requirements.

- Available-for-sale (AFS): Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or not classified as (i) financial assets at fair value through profit or loss, (ii) loans and advances or (iii) held-to-maturity investments. AFS assets are carried at fair value, with fair value changes recognized in other comprehensive income (OCI). These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(ii) Initial recognition

Purchases and sales of investment securities are recognized on the trade date which is the date on which the Group commits to purchase or sell the securities. Loans and advances are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(iii) Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership. A financial liability is derecognized when its contractual obligation is discharged, cancelled or expired.

(iv) Subsequent measurement

Financial assets available-for-sale and investments at fair value through profit or loss are subsequently carried at fair value. Loans and advances and held-to-maturity investments are carried at amortized cost using the effective interest method, less impairment allowances.

(v) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss category are included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale investments are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

In cases where available-for-sale investments with a fixed maturity are reclassified as held-to-maturity investments, the fair value gains or losses until the date of the reclassification are held in equity and amortized over the remaining life of the held-to-maturity investments using the effective interest rate method.

(vi) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Group establishes fair value using valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instrument that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The fair values of the Group’s investment in funds are based on the net asset value obtained from the fund managers with whom the funds are placed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(vi) Fair value measurement principles (continued)

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The fair value of derivatives that are not exchange traded is estimated at the present value of the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparty.

(vii) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The hierarchy used by the Group is set out in note 4.2.

(viii) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, as shorter period to the net carrying amount of the financial asset or financial liability.

(ix) Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(ix) Identification and measurement of impairment (continued)

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level.

Individually assessed loans

At each balance sheet date, the Group assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. This procedure is applied to all accounts that are considered individually significant.

In determining impairment losses on these loans, the following factors are considered:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realizable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding; and
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not local currency.

Impairment losses are recognized in income statement and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

Collectively assessed loans

Impairment is determined on a collective basis in two different scenarios:

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified; and
- for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been identified (performing loans) are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This arises from individual loan impairment at the balance sheet date which will only be specifically identified in the future.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate specific allowance against the individual loan; and
- management's judgment as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by the management for each portfolio grouping.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment on investments classified as available-for-sale

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to income statement as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to income statement is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in income statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

Impairment on investments classified as available-for-sale (continued)

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised in income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the income statement and is recognised directly in other comprehensive income.

b) Derivative financial instruments

(i) Classification

The Group enters into derivative financial instruments including forwards, futures, swaps and options in the foreign exchange and capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVPL – financial assets held for trading" financial instruments.

(ii) Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

The positive mark to market values (unrealized gains) of derivative financial instruments is included in assets. While, the negative mark to market values (unrealized losses) of derivative financial instruments is included in liabilities.

(iii) Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as held for trading are taken to the income statement.

c) Hedging instruments

When derivatives are designated as hedges, the Group classifies them as either:

- fair value hedges which hedge the change in the fair value of recognized assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Hedging instruments (continued)

Hedge accounting

(i) *Hedge documentation*

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group's risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an ongoing basis.

(ii) *Hedge effectiveness testing*

The hedge is regarded as highly effective if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or cash flows of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge are within a range of 80 to 125 percent.

In case of a cash flow hedge, prospective hedge effectiveness is assessed by matching the critical terms of hedging instruments and hedged items.

(iii) *Fair value hedges*

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the assets, liabilities or group thereof that are attributable to the hedged risk.

(iv) *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the income statement.

(v) *Discontinuance of hedge accounting*

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income remains in other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

(vi) *Hedges that do not qualify for hedge accounting*

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the period.

d) Due from banks

Amounts due from banks are stated at amortized cost less provision for impairment, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Loans and advances and Islamic financing

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss.

In addition to conventional banking products, the Group offers its customers certain Islamic financing products, which are approved by Sharia'a Supervisory Board. Islamic Financing consists of the following:

Murabaha

An agreement whereby the Group sells to a customer, commodity or asset (subject asset), which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the subject asset and an agreed profit margin. Income is recognized on an accrual basis adjusted by actual income when received.

Ijarah

Ijarah refers to lease of the asset, which the Group (Lessor) constructs or purchases as per customer (Lessee) request based on the promise to lease the asset for a fixed term against certain rent installment. Ijara can end by transferring the ownership of the asset to the lessee in case of Ijara Muntahia Bittamleek.

Musharaka

An agreement whereby the Group and a customer contribute to a certain enterprise according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the Enterprise.

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

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

f) Investment properties

The Group holds certain properties for its own use as well as to lease out. The leased out or intended to lease out components have been classified as investment properties. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged using straight line method over the useful life of the asset. Estimated useful life of buildings is 20 to 30 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in 'Other income' in the year of retirement or disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Investment properties (continued)

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease of a another party or ending of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation or completion of development.

g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for granted land, which is stated at the market value at the date of grant.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing an item of property and equipment is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The day-to-day servicing expenses of property and equipment are recognised in the income statement as incurred.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment. These are included in the income statement.

Property and equipment are impaired if the carrying amount of the asset or its cash generating unit exceed its recoverable amount. The impairment loss is recognized in the income statement.

The cost of all property and equipment other than freehold land and capital work in progress is depreciated using the straight-line method over the following estimated useful lives:

Buildings	20 to 30 years
Leasehold improvements	5 years
Furniture, equipment and vehicles	3 to 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

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 in accordance with the bank's policies.

h) Due to banks and medium term borrowing

Amounts due to banks and medium term borrowing are initially measured at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Repurchase agreement

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date the agreement is accounted for as a medium term borrowing, and the underlying asset continues to be recognized in the Group's financial statement.

j) Customers' deposits and Islamic Customers' deposits

Customers' deposits are initially recognised at fair value, being the fair value of the consideration received. After initial recognition, all interest bearing deposits, other than liabilities classified as FVPL, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs that are directly attributable to the acquisition or issue of customer deposit.

The Islamic customer deposits are received by entering into following kinds of agreements:

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudarabah.

Wakala

An agreement between group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Islamic customers' deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective profit method.

k) Provisions

A provision is recognized if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

l) Employees' terminal benefits and long-term incentive arrangements

Provision is made for amounts payable under the UAE Federal Labour Law applicable to non UAE nationals' accumulated periods of service at the balance sheet date. The Group pays its contributions in respect of UAE nationals and GCC citizens under the UAE Pension and Social Security Law. Effective from 1 January 2007, the Group introduced a long term incentive plan ("the plan"). Under this plan certain key employees are eligible for an incentive at the offering date contingent upon the Group's performance up to an award date. The award is the percentage of the actual salary of the eligible key employees. The salary includes the basic salary, allowance, national allowance and cost of living allowance as at the effective date. The obligation towards the plan is accrued in the period when the key employees are eligible for such awards in accordance with the plan.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Share capital

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

n) Dividend on ordinary shares

Dividends payable on ordinary shares are recognized as a liability in the period in which they are approved by the Bank's shareholders.

o) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

p) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and balances with the Central Bank (excluding statutory reserve), and amounts due from and due to banks with original maturity less than three months. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

q) Revenue recognition

(i) Interest income and expense

Interest income and expense for all interest bearing financial instruments except for those classified as held for trading or designated at fair value through profit or loss, are recognized in 'interest income' and 'interest expense' in the income statement on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment and is not recognized as interest income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Revenue recognition (continued)

(ii) Income from Islamic financing and distributions to depositors

Income from Islamic financing is recognized in the consolidated income statement using the effective profit method.

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

Distribution to Depositors (Islamic products) is calculated according to the Group's standard procedures and is approved by the Group's Sharia'a Supervisory Board.

(iii) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of effective interest rate.

Other fees and commission income earned from the provision of services are recognized as revenue, as and when the services are rendered or on a time proportion basis as applicable.

(iv) Income from investments

Net income from investments at fair value through profit or loss which arises from gains and losses resulting from disposal, and from the fair valuation of such investments, are recognized when they occur.

(v) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(vi) Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

vii) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at mid-market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Leasing

The Group has entered into leasing arrangements which based on the evaluation of the terms and condition of the leasing arrangement has been classified as operating lease. Leases are classified as operating leases if risk and reward incidental to ownership of the leased asset lie with lessor.

Group as lessor

The Group presents asset subjected to operating lease in the consolidated statement of financial position according to the nature of the asset. Income from operating leases are recognized in the consolidated income statement on straight line basis over the lease term.

Group as lessee

Lease payments under operating leases are recognized as expense on a straight line basis over the lease term.

s) Fiduciary activities

The Group provides wealth management solutions to manage client assets. These assets held in the Group's custody and are invested on behalf of the client in third party funds, and other securities like bonds and sukuk.

These assets and income arising from these assets are not included in the Group's consolidated financial statements as the risk and rewards incidental to ownership of these assets lie with the client.

t) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder in the event that a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

u) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

v) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Management Committee of the Group to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Management Committee of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

In particular, considerable management judgment is required in respect of the following issues:

Impairment losses on loans and advances and Islamic financing

The Group reviews its loan portfolios to assess impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortized cost.

Impairment of available-for-sale investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology or operational and financing cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Use of estimates and judgments (continued)

Impairment of investment property

Investment 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 discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

Impairment on 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 asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized 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, which suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

x) The standards and interpretations that are issued but not yet effective for accounting periods beginning on 1 January 2012

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9 'Financials Instruments' which is effective from 1 January 2015

IFRS 9 deals with recognition, de-recognition, classification and measurement basis of the financial assets and financial liabilities. Its requirements represent change from existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortised cost and fair value. Implementation of this standard is not expected to have a significant impact on the Group's consolidated financial statements.

IFRS 10 'Consolidated Financial Statements' which is effective from 1 January 2013

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees.

IFRS 13 'Fair Value Measurement' which is effective from 1 January 2013

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3

4. FINANCIAL ASSETS AND LIABILITIES

4.1 Financial assets and liabilities classification

The table below sets out the Group's classification of each class of financial assets and liabilities:

		Amortized Cost				
	Fair value through Profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale at fair value	Other amortized cost	Total carrying amount
	AED'000					
2012						
Cash and balances with central bank	-	-	-	-	**5,563,270**	**5,563,270**
Due from banks	-	-	-	-	**1,827,518**	**1,827,518**
Loans and advances and Islamic financing	-	-	**27,009,239**	-	-	**27,009,239**
Investment securities	**17,932**	**648,303**	-	**1,791,691**	-	**2,457,926**
Other assets	**2,113**	-	-	-	**1,985,341**	**1,987,454**
Total financial asset	**20,045**	**648,303**	**27,009,239**	**1,791,691**	**9,376,129**	**38,845,407**
Due to banks	-	-	-	-	**434,864**	**434,864**
Customers' deposits and Islamic customers' deposits	-	-	-	-	**28,051,989**	**28,051,989**
Medium term borrowing	-	-	-	-	**2,191,207**	**2,191,207**
Other liabilities	**360**	-	-	-	**1,906,721**	**1,907,081**
Total financial liabilities	**360**	-	-	-	**32,584,781**	**32,585,141**
2011						
Cash and balances with central bank	-	-	-	-	5,376,083	5,376,083
Due from banks	-	-	-	-	1,700,862	1,700,862
Loans and advances and Islamic financing	-	-	26,815,087	-	-	26,815,087
Investment securities	22,396	919,627	-	969,819	-	1,911,842
Other assets	5,176	-	-	-	1,780,274	1,785,450
Total financial assets	27,572	919,627	26,815,087	969,819	8,857,219	37,589,324
Due to banks	-	-	-	-	326,066	326,066
Customers' deposits and Islamic customers' deposits	-	-	-	-	28,423,430	28,423,430
Medium term borrowing	-	-	-	-	1,631,501	1,631,501
Other liabilities	5,014	-	-	-	1,475,121	1,480,135
Total financial liabilities	5,014	-	-	-	31,856,118	31,861,132

4. FINANCIAL ASSETS AND LIABILITIES (continued)

4.2 Fair value measurement – Fair value hierarchy:

The below table, shows the hierarchy used by the Group to determine the fair value of the financial assets and financial liabilities:

2012	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Investments			
Equity	**171,787**	**-**	**-**
Fund of funds	**94,897**	**-**	**-**
Fixed and floating rate securities	**1,542,939**	**-**	**-**
Forward foreign exchange contracts and other derivatives (net)	**-**	**1,753**	**-**
2011			
Investments			
Equity	215,479	-	-
Fund of funds	102,686	-	-
Fixed and floating rate securities	674,050	-	-
Forward foreign exchange contracts and other derivatives (net)	-	953	-
Interest rate swaps (net)	-	(791)	-

During the year there were no transfers between Level 1 and Level 2 of the fair value hierarchy above and no transfer into and out of level 3 fair value measurements. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the year.

5. CASH AND BALANCES WITH CENTRAL BANK

	2012 AED'000	2011 AED'000
Cash on hand	**430,153**	461,525
Balances with Central Bank		
- Clearing account balances	**260,538**	115,087
- Statutory reserves	**1,872,579**	1,699,471
- Negotiable certificates of deposit	**3,000,000**	3,100,000
	5,563,270	5,376,083

All the above balances are held in accounts within UAE.

6. DUE FROM BANKS

	2012 AED'000	2011 AED'000
Current and demand deposits	**136,166**	113,798
Placements	**1,691,352**	1,587,064
	1,827,518	1,700,862

The Geographical concentration is as follows:

	2012 AED'000	2011 AED'000
Within the U.A.E.	**1,073,581**	1,468,088
Outside the U.A.E.	**753,937**	232,774
	1,827,518	1,700,862

7. LOANS AND ADVANCES AND ISLAMIC FINANCING

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

Loans and advances	**2012 AED'000**	2011 AED'000
Overdrafts	**5,862,726**	6,531,911
Loans	**20,327,357**	19,704,353
Advances against letters of credit and trust receipts	**827,063**	889,065
Bills discounted	**617,989**	848,762
Gross loans and advances	**27,635,135**	27,974,091
Islamic financing		
Murabaha	**1,007,993**	314,154
Ijara	**615,028**	280,967
Musharaka	**80,000**	-
Others	**44,920**	26,947
Gross Islamic financing	**1,747,941**	622,068
Gross loans and advances and Islamic financing	**29,383,076**	28,596,159
Provisions for impairment losses	**(2,373,837)**	(1,781,072)
Net loans and advances and Islamic financing	**27,009,239**	26,815,087

The movements in provisions for impairment losses are as follows:

	Interest suspended AED'000	**Specific provisions AED'000**	**Collective provisions AED'000**	**Total AED'000**
Opening balance 1 January 2012	**258,570**	**1,092,436**	**430,066**	**1,781,072**
Interest not recognized / new provisions raised	**202,058**	**479,084**	**10,677**	**691,819**
Less:				
Written-Off	**(15,174)**	**(16,408)**	**-**	**(31,582)**
Reversal to income	**(13,901)**	**(48,964)**	**-**	**(62,865)**
Amortization of interest impairment	**-**	**(4,607)**	**-**	**(4,607)**
Closing Balance 31 December 2012	**431,553**	**1,501,541**	**440,743**	**2,373,837**

	Interest suspended AED'000	**Specific provisions AED'000**	**Collective provisions AED'000**	**Total AED'000**
Opening balance 1 January 2011	158,212	672,724	424,566	1,255,502
Interest not recognized / new provisions raised	129,204	506,537	5,500	641,241
Less:				
Written-Off	(15,569)	(51,895)	-	(67,464)
Reversal to income	(13,277)	(28,412)	-	(41,689)
Amortization of interest impairment	-	(6,518)	-	(6,518)
Closing Balance 31 December 2011	258,570	1,092,436	430,066	1,781,072

The economic sector composition of the loans and advances and Islamic financing is set out in note 32-b.

8. INVESTMENT SECURITIES

2012	Domestic AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	**652**	**-**	**543**	**1,195**
Fixed rate securities				
- Government	**3,526**	**-**	**-**	**3,526**
- Others	**7,695**	**5,516**	**-**	**13,211**
Available-for-sale				
Equities	**170,592**	**-**	**-**	**170,592**
Fund of funds	**31,247**	**63,650**	**-**	**94,897**
Fixed rate securities				
- Government	**534,165**	**146,314**	**-**	**680,479**
- Others	**464,437**	**106,780**	**-**	**571,217**
Floating rate non government securities	**211,239**	**63,267**	**-**	**274,506**
Held-to-maturity				
Fixed rate government securities	**178,585**	**-**	**-**	**178,585**
Floating rate securities				
- Government	**434,457**	**-**	**-**	**434,457**
- others	**35,261**	**-**	**-**	**35,261**
Total investment securities	**2,071,856**	**385,527**	**543**	**2,457,926**

2011	Domestic AED'000	GCC AED'000	International AED'000	Total AED'000
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

8. INVESTMENT SECURITIES (continued)

8.1 AFS and HTM debt securities

The below table shows the rating of AFS and HTM debt securities:

	2012 **AED'000**	2011 AED'000
Rated Aaa to Aa3	**369,740**	74,975
Rated A1 to A3	**593,217**	95,122
Rated BBB+ to BBB-	**494,037**	198,415
Rated BBB- and below	**50,578**	598,552
Unrated	**666,933**	604,217
	2,174,505	1,571,281

8.2 Reclassification of investment securities

The Group, as a result of the adoption of amendments of IAS-39 financial instruments; recognition and measurement and IFRS -7 Financial Instruments: Disclosures, introduced in October 2008, had reclassified investments amounting to AED 93 million, from the fair value through profit or loss classification to the available-for-sale investments category. As there was no trading in the reclassified investments during the years prior to re-classification, the management considers that the reclassification provides a more appropriate presentation of the investments in accordance with the Group's long-term investment strategy. As required by the amendments, the effects of such a reclassification are set out below:

	2012 **AED'000**	2011 AED'000
After reclassification		
Unrealised fair value loss recognized in statement of other comprehensive income	**(762)**	(492)

8.3 Fund of funds investments

This represents investments in global and regional asset management funds as a part of the Group's strategy of diversifying its holdings.

9. INVESTMENT PROPERTIES

The movement in investment properties during the year is as follows:

	2012 AED'000	2011 AED'000
Cost		
At 1 January	**245,331**	243,797
Additions	**170**	1,534
Transfer from capital work in progress	**-**	-
At 31 December	**245,501**	245,331
Depreciation		
At 1 January	**71,508**	62,760
Charge for the year	**7,878**	8,748
At 31 December	**79,386**	71,508
Net book value		
At 31 December	**166,115**	173,823

Investment properties comprises of buildings. Rental income from investment properties leased under operating lease recorded in other income is AED 27.46 million *(2011: AED 20.7 million).*

The fair value of investment properties as at 31 December 2012 is AED 380 million. The fair value of investment properties represents estimated market value of the properties.

10. PROPERTY AND EQUIPMENT

	Freehold land and buildings	Leasehold improve-ments	Furniture, equipment & vehicles	Capital work in progress	Total
	AED'000				
Cost					
At 1 January 2012	**332,374**	**32,938**	**245,367**	**150,970**	**761,649**
Additions during the year	**216**	**3,863**	**4,248**	**14,752**	**23,079**
Transfer from capital work in progress	**-**	**-**	**9,643**	**(9,643)**	**-**
Disposals	**-**	**(699)**	**(403)**	**(192)**	**(1,294)**
At 31 December 2012	**332,590**	**36,102**	**258,855**	**155,887**	**783,434**
Depreciation					
At 1 January 2012	**98,012**	**19,254**	**192,065**	**-**	**309,331**
Charge for the year	**11,459**	**5,335**	**25,786**	**-**	**42,580**
On disposals	**-**	**(520)**	**(125)**	**-**	**(645)**
At 31 December 2012	**109,471**	**24,069**	**217,726**	**-**	**351,266**
Net book values					
At 31 December 2012	**223,119**	**12,033**	**41,129**	**155,887**	**432,168**

	Freehold land and buildings	Leasehold improve-ments	Furniture, equipment & vehicles	Capital work in progress	Total
	AED'000				
Cost					
At 1 January 2011	329,357	30,941	234,575	107,092	701,965
Additions during the year	3,185	5,520	6,809	52,717	68,231
Transfer from capital work in progress	-	-	7,729	(7,729)	-
Disposals / transfer to investment properties	(168)	(3,523)	(3,746)	(1,110)	(8,547)
At 31 December 2011	332,374	32,938	245,367	150,970	761,649
Depreciation					
At 1 January 2011	85,814	16,600	164,113	-	266,527
Charge for the year	12,198	5,364	31,016	-	48,578
On disposals	-	(2,710)	(3,064)	-	(5,774)
At 31 December 2011	98,012	19,254	192,065	-	309,331
Net book values					
At 31 December 2011	234,362	13,684	53,302	150,970	452,318

Freehold land and buildings includes the market value of a plot of land granted to the Group by the Government of Dubai in 1998. The market value of AED 38,638,000 was determined by independent appraisers at that time and was credited to a capital reserve.

The capital work in progress includes expenditure for construction of Qasimya building, which is expected to be capitalized in the first quarter of 2013.

The Group assessed whether there is an indication that an asset may be impaired as required by IAS and concluded that there was no indication of impairment.

11. OTHER ASSETS

	2012	2011
	AED'000	AED'000
Interest receivable	**531,734**	587,226
Accounts receivable and prepayments	**150,749**	159,705
Customer's indebtedness for acceptances	**1,328,400**	1,058,362
Positive mark to market value of derivatives (note 28)	**2,113**	5,176
	2,012,996	1,810,469

12. DUE TO BANKS

	2012	2011
	AED'000	AED'000
Current and demand deposits	**56,214**	82,298
Short term borrowings	**378,650**	243,768
	434,864	326,066

13. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS

Customers' deposits	**2012**	2011
	AED'000	AED'000
Current and demand accounts	**10,523,573**	9,701,753
Savings accounts	**1,283,371**	1,120,794
Time deposits	**12,825,633**	14,587,938
	24,632,577	25,410,485

Islamic customers' deposits	**2012**	2011
	AED'000	AED'000
Current and demand accounts	**425,322**	320,979
Mudaraba savings accounts	**253,105**	163,620
Investment and Wakala deposits	**2,740,985**	2,528,346
	3,419,412	3,012,945
Total customers' deposits and Islamic customers' deposits	**28,051,989**	28,423,430

	2012	2011
By sector:	**AED'000**	AED'000
Government	**3,488,902**	2,419,728
Corporate	**17,114,843**	18,896,953
Consumer	**7,448,244**	7,106,749
	28,051,989	28,423,430

13. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS (continued)

Subordinated term loans

Customers' deposits include deposits received by the Group in 2008, aggregating to AED 1,841.526 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 are treated as lower Tier 2 capital in agreement with the UAE Central Bank. The subordinated 7 years term loan bears fixed interest rate of 4% per annum for first two years and steps up to 4.5% per annum and 5% per annum in the third and fourth years and from fifth years onwards at 5.25% per annum. Interest is payable quarterly from the date of re-categorization.

The agreement contains certain conditions relating to the Group's minimum Tier 1 Capital requirement and also stipulated certain conditions under which of MOF has the right to convert the loan amount together with accrued interest into share capital upon occurrence of the conversion events as per the terms of the agreement.

The Bank has the option at any time during the option period to repay the loans in whole or in part subject to meeting certain conditions.

14. 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 certain debt securities, amounting to USD 150.1 million with arrangements to repurchase them at a fixed future date in July 2017.

15. OTHER LIABILITIES

	2012	2011
	AED'000	AED'000
Interest payable	**63,224**	100,012
Employees' terminal benefits	**55,312**	57,739
Accounts payable and unearned fee income	**498,981**	300,369
Negative mark to market value of derivatives (note 28)	**360**	5,014
Liabilities under acceptances	**1,328,400**	1,058,362
Accounts payable to brokerage customers	**16,116**	16,378
	1,962,393	1,537,874

16. EQUITY

Share capital

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

16. EQUITY (continued)

Legal reserve

Federal Law No. 8 of 1984 (as amended), Union Law No. 10 of 1980 and the Bank's Articles of Association require that a minimum of 10% of the annual net profit be transferred to a legal reserve, until such time as this reserve equals 50% of share capital. The legal reserve is not available for distribution except under the circumstances stipulated by the relevant law.

Capital reserve

This reserve represents the market value of the granted land at the date of grant as explained in note 10, and is not available for distribution to the shareholders.

General reserve

In accordance with article 87 of the Bank's Articles of Association, a minimum of 10% of the annual net profit to be transferred to general reserve until such time as this reserve equals 50% of share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the Shareholders.

Cumulative changes in fair values of AFS investments and cash flow hedge instruments

This represents the net change in the fair values of available-for-sale investments and derivatives held as cash flow hedge instruments by the Group and are not available for distribution to the shareholders.

Bonus shares

At the Annual General Meeting (AGM) held on 14th March 2012, 5% bonus issue to the shareholders had been approved and transferred to the share capital during 2012 after the completion of all legal formalities.

Proposed distribution

The Board of Directors has proposed the following distribution for approval by the Annual General Meeting of the shareholders to be held on 13th March 2013.

i)*Proposed cash dividend*

A cash dividend of 30% *(2011: 20%)* of the share capital amounting to AED 611,505,593 *(2011: AED* 388,257,519*)* is proposed representing a dividend of AED 0.30 per share *(2011: AED 0.20 per share).*

ii) *proposed bonus issue*

No bonus issue for 2012 is proposed (2011: 5% in the ratio of 1 share for every 20 shares held, approved in the AGM).

iii)*Proposed directors' remuneration*

In accordance with Article 118 of Federal Law No.8 of 1984, directors' remuneration amounting to AED 11,000,000 *(2011: AED 11,000,000)* has been treated as an appropriation from equity.

17. INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2012	2011
Interest income	**AED'000**	AED'000
Loans and advances	**1,534,491**	1,673,875
Negotiable certificates of deposit with the Central Bank	**612**	272
Due from banks	**2,836**	7,481
Investment securities		
- Held-to-maturity bonds	**15,112**	14,910
- Available-for-sale bonds	**42,886**	23,016
	1,595,937	1,719,554
Income from Islamic financing		
Murabaha	**33,228**	19,416
Ijara	**25,245**	9,735
Musharaka	**2,321**	-
Investment securities		
- Held-to-maturity sukuk	**10,129**	19,619
- Available-for-sale sukuk	**8,491**	388
	79,414	49,158
Total interest income and income from Islamic financing	**1,675,351**	1,768,712

18. INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS

	2012	2011
Interest expense	**AED'000**	AED'000
Due to banks	**1,586**	824
Customers’ deposits	**244,884**	329,400
Medium term borrowing	**51,402**	28,477
Derivative financial instruments	**98**	15,952
	297,970	374,653
Distribution to Islamic depositors		
Islamic customers’ deposits	**45,106**	52,682
	45,106	52,682
Total interest expense and distribution to Islamic depositors	**343,076**	427,335

Distribution to Islamic depositors represents the share of income allocated to Islamic depositors of the Group. The allocation and distribution is approved by the Group’s Sharia’a Supervisory Board.

19. NET FEES AND COMMISSION INCOME

	2012	2011
	AED'000	AED'000
Lending activities	**60,937**	72,790
Trade finance activities	**123,060**	134,146
Account operating activities	**125,286**	124,371
Cards income and brokerage fees	**50,865**	49,874
	360,148	381,181
Cards and brokerage expenses	**(22,658)**	(18,763)
	337,490	362,418

20. NET GAINS / (LOSSES) FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - HELD FOR TRADING

	2012	2011
	AED'000	AED'000
Net realized gains / (losses) on sale of investments at fair value through profit or loss	**1,428**	(406)
Net unrealized gains / (losses) on investments at fair value through profit or loss	**181**	(588)
	1,609	(994)

21. DIVIDEND INCOME

	2012	2011
	AED'000	AED'000
Investments at fair value through profit or loss – held for trading	**3**	-
Available-for-sale investments	**7,573**	10,070
	7,576	10,070

22. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff related expenses of AED 385.8 million (*2011: AED* 390.9 *million*).

23. OPERATING LEASES

Group as lessee

General and administrative expenses include rental expense under operating leases of AED 14.76 million (2011: AED 14.26 million). Non-cancelable operating lease rental payable is as follows

	2012	2011
	AED '000	AED '000
Less than one year	**9,011**	14,092

Group as lessor

Operating leases relate to the Group's investment properties. Non-cancellable operating lease rental receivables are as follows

	2012	2011
	AED '000	AED '000
Less than one year	**15,350**	13,029

24. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share is based on the Group's profit attributable to shareholders for the year amounting to AED 852,838 million (*2011: AED 822.100 million),* and on the weighted average number of shares in issue totaling 2,038,351,976 (*2011:* 2,038,351,976).

There was no dilutive effect on earnings per share.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	2012	2011
	AED'000	AED'000
Cash on hand	**430,153**	461,525
Balances with the Central Bank	**260,538**	115,087
Negotiable certificates of deposit with the Central Bank	**3,000,000**	3,100,000
Due from banks with original maturity less than three months	**1,827,518**	1,696,547
	5,518,209	5,373,159
Due to banks with original maturity less than three months	**(434,864)**	(326,066)
	5,083,345	5,047,093

26. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit, guarantees and forward foreign exchange contracts which are designed to meet the requirements of the Group's customers toward third parties. Commitments represent the Group's commitments towards approved un-drawn credit facilities. The amounts reflected below represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	2012 AED'000	2011 AED'000
Contingent liabilities:		
Letters of credit	**967,836**	1,412,956
Guarantees	**5,555,384**	6,669,008
	6,523,220	8,081,964
Credit commitments:		
Undrawn commitments to extend credit	**8,969,201**	8,646,291
Capital commitments:		
Capital expenditure commitments	**10,500**	40,528
Total contingent liabilities and commitments	**15,502,921**	16,768,783

27. FIDUCIARY ASSETS

Assets held under fiduciary capacity on behalf of the clients are AED 655.838 million (2011: AED 485.510 million)

28. DERIVATIVES

The following table shows the fair values of derivative financial instruments at the reporting date, together with the notional amounts, analyzed by terms to maturity. The notional amount is the value of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

31 December 2012	**Positive market value**	**Negative market value**	**Notional amount**	**Less than three months**	**From three months to one year**	**From one year to five years**
	AED'000					
Held for trading:						
Forward foreign exchange contracts and other derivatives	**2,113**	**360**	**343,962**	**337,229**	**3,382**	**3,352**
	2,113	**360**	**343,962**	**337,229**	**3,382**	**3,352**

28. DERIVATIVES (continued)

31 December 2011	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to five years
	AED'000					
Held for trading:						
Forward foreign exchange contracts and other derivatives	5,176	4,223	863,344	756,780	96,514	10,050
	5,176	4,223	863,344	756,780	96,514	10,050
Hedging instruments:						
Interest rate swaps	-	791	36,730	36,730	-	-
	-	791	36,730	36,730	-	-
Total	5,176	5,014	900,074	793,510	96,514	10,050

29. 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, deposits, trade finance products and e-commerce solutions to large corporate clients (including Government related entities).
Commercial banking	Includes loans, working capital financing, trade finance and deposits products to commercial (mid-sized) clients and business (small) clients.
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.

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.

29. SEGMENTAL REPORTING (continued)

Segmental analysis for the year ended 31 December 2012 was as follows:

	Corporate banking	Commercial Banking	Consumer banking	Treasury & investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Assets	**20,664,389**	**6,436,217**	**2,445,753**	**9,922,873**	**39,469,232**
Liabilities	**14,806,816**	**8,471,619**	**6,728,927**	**2,633,091**	**32,640,453**
Net interest income and income from Islamic financing	**744,257**	**431,319**	**129,621**	**27,078**	**1,332,275**
Inter segment income	**(149,008)**	**3,005**	**41,024**	**104,979**	**-**
Other income	**203,088**	**154,772**	**59,199**	**102,599**	**519,658**
Total operating income	**798,337**	**589,096**	**229,844**	**234,656**	**1,851,933**
Allocated cost	**130,087**	**225,684**	**135,345**	**30,625**	**521,741**
Provisions for impairment losses net of recoveries	**448,576**	**11,503**	**(33,183)**	**-**	**426,896**
Depreciation	**23,488**	**10,758**	**13,195**	**3,017**	**50,458**
Total expenses	**602,151**	**247,945**	**115,357**	**33,642**	**999,095**
Net profit for the year	**196,186**	**341,151**	**114,487**	**201,014**	**852,838**

Segmental analysis for the year ended 31 December 2011 was as follows:

	Corporate banking	Commercial Banking	Consumer banking	Treasury & investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Assets	21,038,091	5,730,193	2,399,937	9,072,263	38,240,484
Liabilities	15,106,753	8,363,373	6,480,510	1,968,235	31,918,871
Net interest income and income from Islamic financing	753,137	425,538	142,268	20,434	1,341,377
Inter segment income	(132,548)	1,575	49,198	81,775	-
Other income	254,442	132,134	54,511	80,228	521,315
Total operating income	875,031	559,247	245,977	182,437	1,862,692
Allocated cost	123,082	221,751	131,401	36,684	512,918
Provisions for impairment losses net of recoveries	373,039	40,651	56,658	-	470,348
Depreciation	25,976	13,264	16,058	2,028	57,326
Total expenses	522,097	275,666	204,117	38,712	1,040,592
Net profit for the year	352,934	283,581	41,860	143,725	822,100

30. RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board:

	Directors and key management personnel		**Other related parties**	
	31 December 2012 AED'000	31 December 2011 AED'000	**31 December 2012 AED'000**	31 December 2011 AED'000
Loans and advances	**76,566**	173,719	**701,137**	563,609
	=======	=======	=======	=======
Deposits	**5,728**	25,705	**1,768,907**	595,307
	=======	=======	=======	=======
Interest income	**4,163**	8,493	**29,463**	35,025
Interest expense	**21**	52	**15,938**	8,386
	=======	=======	=======	=======

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.

Other related parties represent major shareholders and parties related to Directors, key management personnel.

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

The loans issued to directors are repayable monthly over a maximum period of 5 years *(2011: 5 years)* and carry interest at rates comparable to third party loans. These loans are unsecured *(2011: unsecured).*

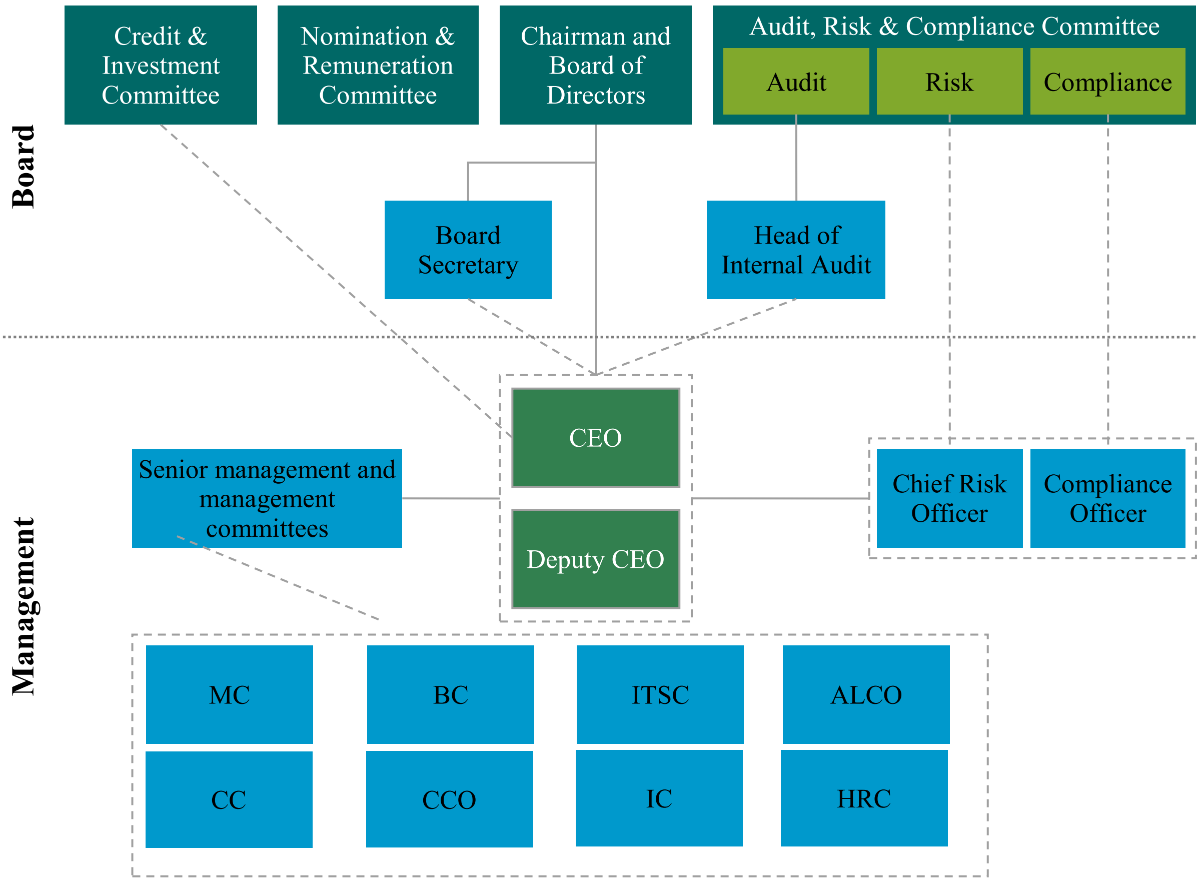
Key management compensation	**2012 AED'000**	2011 AED'000
Salaries	**11,189**	10,181
Post benefits	**525**	853
Other benefits	**8,994**	6,296

31. RISK MANAGEMENT OBJECTIVES AND POLICIES

31.1 Risk Governance

The Board of Directors (the "Board") has the overall responsibility for the operations and the financial stability of the Group, and ensures that the interests of shareholders, depositors, creditors, employees and other stakeholders, including the banking regulators and supervisors, are met. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. Additionally, it is responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures as well as management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by three Board Committees and eight management committees. An illustration of how these committees report to the Group Board is shown below:



31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31.1 Risk Governance (continued)

Board Committees

a) Credit & Investment Committee (CICO)

The purpose of the CICO is to:

- oversee the quality of the Group's credit and investments portfolio, the trends affecting that portfolio and expresses its opinion on the same to the Audit, Risk & Compliance Committee for consideration;
- Oversee the effectiveness and administration of credit-related policies;
- Approve loans and investments above management limits;
- Develop investment policies and monitor management's compliance with the investment strategies and guidelines; and
- Approve disposal of assets.

CICO consists of six non-executive Board members.

b) Audit, Risk & Compliance Committee (ARCC)

The ARCC consists of four non-executive Board members and an independent non-Board member. The role of the ARCC is to assist the Board of Directors in ensuring and maintaining oversight of the Group's financial reporting system, internal control and risk management processes, audit functions and legal and regulatory requirements by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial statement;
- Monitoring the effectiveness and integrity of the risk management framework and review reports on risk management;
- Evaluating the adequacy and effectiveness of the Group's procedures and controls for ensuring compliance with legal and regulatory requirements and internal policies;
- Managing the relationship with the Group's external auditors;
- Supervising internal auditors, determining their scope of work, ensuring coordination between various external auditing bodies, reviewing the periodicity and scope of internal audit, and the approval of their working plans;
- Reviewing reports of the Central Bank, Financial Audit Department of Government of Dubai, internal and external auditors , and following up relevant measures taken to address weaknesses in controls, and non-compliance with laws & regulations, to ensure that management has instituted appropriate remedial measures;
- Submitting recommendations to the Board concerning the nomination, appointment, termination and remuneration of the external auditor and its election by the general assembly, ensuring that the external auditor fulfills the requirements of supervisory bodies, and that nothing impairs its independence to the external auditor;
- Ensuring the independence of the internal audit department to carry out its duties;
- Reviewing reports on the internal controls and ensuring the sufficiency and efficiency of the internal control system to avoid any potential conflict of interest, which may arise from the Group's transactions or contracts or entering into projects with related parties, and to ensure that internal audit plans cover this;

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31.1 Risk Governance (continued)

- Monitoring the compliance systems in place by which management discharges its legal obligations in respect of the Bank's business;
- Receiving information and monitoring that 'due diligence' matters which arise are being reported to Senior Management and the Board and that there are appropriate mechanisms in place for dealing with such matters; and
- Reviewing compliance systems and procedures within the Bank to monitor that there is appropriate disclosure to the Board of areas of operating and non-financial risk.

c) Nomination & Remuneration Committee (NRC)

The Nomination & Remuneration Committee has been established to provide an efficient mechanism for reviewing the Bank's compensation arrangement for its Management and Staff and making recommendations for the Board's approval on these matters. The Chairman and the Members of the committee are appointed by the Board from amongst its Directors. The NRC comprises of four non-executive Board members; the Group's Head of Human Resources acts as a Secretary to the Committee.

Its primary objectives and responsibilities that are independently undertaken and assumed on behalf of the Board, that may be amended time to time are as given below but not limited to:

- Review the succession plan for the senior executives of the Group, taking into account the challenges and opportunities facing the Group, and what skills and expertise are therefore needed in the future;
- Ensuring that compensation programs are fair in order to attract, retain and motivate its professional management and staff and in adherence to the short, medium and long-term objectives of the Group bearing in mind the risk-taking and market conditions. Additionally, they must oversee the development of new compensation plans and approve the revision of existing plans, as and when required;
- Review Board Members' fees and committee fees for the Bank and any of its subsidiaries as appropriate;
- Ensuring that remuneration practices are compliant with all laws/rules that are applicable to the banks and that reporting and disclosures pertaining to the same are carried out in a timely manner as regulated by, but not limited to the laws of UAE Central Bank, Dubai Financial Market & Securities and Commodities Authority;
- Facilitating and expediting the implementation of any Board decision pertaining to remuneration;
- Recommending the remuneration and compensation of the senior management;
- Determining the bonus pool, overall increment pool for staff and prepare a compensation recommendation for presentation to the Board considering certain factors such as Bank's performance and shareholder return, compensation in comparison to peers and rewards given in the past years;
- Recommending proposals for granting and exercising Long Term Incentive Programs (LTIPs) and /or share option schemes, where applicable; and
- Reviewing and approving overall HR policies and strategy.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31.1 Risk Governance (continued)

Executive Management Committees

a) Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategy, policies, marketing, administration and processes. In addition, the MC is also responsible for management of Operational Risk with the support of the Risk Management Department who is responsible to liaise with all other units/divisions across the Group.

b) Business Committee (BC)

The purpose of BC is to review, analyze and decide on business initiatives related to corporate and consumer banking, treasury and investments. It comprises of Heads of business and support units.

c) IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology platform in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with:

- Reviewing the Group’s IT development, strategic opportunities and plans;
- Providing guidance in the prioritization and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations’ effectiveness;
- Reviewing business continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Approving IT Budgets.

d) Asset and Liability Committee (ALCO)

The objective of ALCO is to drive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group’s risk appetite and levels of exposure as determined by the Board of Directors.

The terms of reference of ALCO include the following:

➢ Developing an effective asset and liability management process and related procedures to oversee and monitor the Group’s approved policies and procedures in relation to the management and control of the following risks:
  - *Liquidity risk* – being the risk of the Group’s inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
  - *Market risk* – being the following risks:
    - The risk to earnings from adverse movements in interest rates, exchange rates and market volatility; and

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31.1 Risk Governance (continued)

d) Asset and Liability Committee (ALCO) (continued)

  - The risk from changes in the value of portfolio of financial instruments.
- *Statement of financial position risk* **-** being the following risks:
  - The risk to earnings from changes in interest rates and market volatility in retail and wholesale rates;
  - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in interest rates and market volatility;
  - The risk from material changes in global and domestic economic conditions generally; and
  - Consider deposit and loan products and their impact on the statement of financial position. In particular, consider the pricing and maturity distributions of deposits, loans and investments.
- Overseeing the installation and maintenance of information systems that supplies, on a timely basis, the information and data necessary for the ALCO to fulfill its roles and responsibilities.

e) Credit Committee (CC)

CC manages the credit risk of the Group by continuous review and update of credit limits, credit policies, process and frame-work, the approval of specific exposures and work out proposals, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

f) Compliance Committee (CCO)

The CCO primarily ensures the prevention of money laundering and terrorism financing in adherence and compliance with the relevant regulations set by regulatory authorities, applicable to the Bank. It oversees the monitoring and implementation of policies and procedures related to compliance and AML. It consists of five executive members whose duties include but are not limited to:

- Assessing and approving reports prepared by Head of Compliance and AML regarding suspicious transactions in staff & customer accounts/credit cards & internal and external fraud cases and subsequently taking appropriate corrective action through investigation, police and court action wherever necessary;
- Reviewing the higher risk customers, like non-residents, free-zones entities, politically exposed persons (PEP's) and others as defined by our "Know Your Customer (KYC) and Anti-money Laundering (AML) Policies & Procedures", and provides the suitable guidance.

g) Investment Committee (IC)

The IC is responsible for overseeing and managing the Bank's proprietary investments, in both fixed income and equity securities, in accordance with the investment policy and guidelines.

The IC's key responsibilities are:

- Approving and amending the policies and guidelines;
- Reviewing and approving Investment Group/Treasury's proposed investment recommendations;
- Reviewing and evaluating performance of portfolios against benchmarks; and
- Reviewing the portfolio's continued compliance with regulatory guidelines.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31.1 Risk Governance (continued)

h) Human Resources Committee (HRC)

The purpose of the HRC is to set strategy and policy in the following areas:

- Organization development in terms of structure, professional ethics, annual business strategy, business focused succession planning.
- Staffing in terms of Emiratisation, optimal headcount/manpower distribution, review sourcing process, policies & strategies, review the approved agencies.
- Training and Development ensuring the timely conduct of training, approve specialized development programs, review financial budget for training & development and ensure it has been used extensively for this purpose.
- Performance Management ensures performance driven work culture, develop managers' competence and ensure managers agree on the KPI's and performance reviews.
- Compensation & Reward Management supporting the Nomination & Remuneration Committee, ensure jobs are graded based on the Job Evaluation System, ensure incentive scheme, revision of salary structure, changes in the allowances, benefits & facilities and other rewards reaches employees.
- Employee Services ensuring that employee grievances are timely resolved, effective implementation of Staff Suggestion scheme, Employee Satisfaction Survey and outstanding performance awards.

31.2Control Environment

a) Group Risk

Group Risk Department comprises credit, market, operational and IT risks units. Its responsibilities include the following:

- Developing a strategy, policy and framework for risk management such that these are aligned with business requirements;
- Providing support to the Group in implementation of the framework;
- Bringing together analysis of risk concentrations and sensitivities across the Group;
- Acting as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- Providing independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

b) Internal Audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the ARCC or Senior Management.

It is led by the Head of Internal Audit who reports to the ARCC of the Board of Directors, with administrative reporting to the Chief Executive Officer.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31.2Control Environment

b) Internal Audit (continued)

To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel. The Internal Audit Charter empowers it to have full, free and effective access at all reasonable times to all records, documents and employees of the Group. Further, Internal Audit has direct access to the Chairman of the Audit, Risk & Compliance Committee.

To determine whether the Internal Audit Function is functioning effectively, once each year the ARCC shall:

- Assess the appropriateness of the Internal Audit Charter;
- Assess the adequacy of resources available, both in terms of skills and funding; and
- Sponsor external assessments, at least once every three (3) years, by a qualified, independent reviewer from outside the Group.

c) Internal Control

Board of Directors and Executive Management are responsible for developing and maintaining the existence of a sound Internal Control System and procedures that meet international standards and fulfill the requirements of the Group's management and external regulatory bodies. The internal control system should be capable of ensuring the achievement of the following:

- Accuracy and integrity of financial and operational statements issued by the Group;
- Effectiveness and efficiency of the Group's operational activities;
- Effectiveness of measures and procedures set to safeguard the Group's assets and properties; and
- Compatibility with laws, legislations and regulations in force as well as policies pertinent to internal operational procedures.

Executive management constantly monitors and assesses the efficiency and effectiveness of internal control procedures and their ability to achieve stated objectives and their furtherance and enhancement.

The Internal Control Department reports to the Chief Operating Officer (COO). The functions and responsibilities of the Internal Control Department include but not limited to:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enabling the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Following up of the operational activities from a preventive perspective and overseeing operational controls being exercised to ensure that these are timely and effective.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)
31.2Control Environment (continued)

d) Compliance and fraud

The process of monitoring compliance is considered an independent task it aims at ensuring that the Group and its internal policies are in compliance with all applicable laws, regulations, instructions, directives, codes of conduct and sound banking standards and practices as issued by relevant authorities.

The Board of Directors takes necessary measures to further the values of integrity and sound professional conduct within the Group promoting a culture of compliance in latter and spirit with the applicable laws, regulations, instructions and standards that constitute a primary goal that must be achieved.

The overall mission and role of compliance department is to:

- ensuring compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensuring senior management is fully informed of significant compliance issues and plans for resolution;
- contributing to a “no surprise” compliance culture by educating and communicating compliance awareness throughout the Group;
- aligning annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

e) Whistle Blowing

A set of arrangements has been designed to enable employees to confidentially report concerns about any potential violations, enabling the investigation and follow up of such concerns independently and discreetly through the whistle blowing policy. Such arrangements are supervised by the ARCC and in coordination with the executive management.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31-3. Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all regulations and guidelines issued by the lead regulator Central Bank of the UAE (CBUAE), International Financial Reporting Standards (IFRS), Securities and Commodities Authority (SCA) and Dubai Financial Market (DFM).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

a) Materiality thresholds

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement, and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down a materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

b) Control framework

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of financial disclosures. In addition, the consolidated financial statements are subject to a quarterly review and year end audit procedures by the Group's external auditors.

c) Frequency and medium of disclosure

Interim financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel II Pillar 3, relevant laws of the U.A.E, SCA requirement and other guidelines from CBUAE is made on an annual basis. Disclosures of material non-public financial information are made through the following mediums:

- Uploading quarterly reviewed and annual audited consolidated financial statements along with Directors' report to DFM and SCA websites;
- Posting quarterly and annual consolidated financial statements on the Group's website;
- Publishing of annual audited consolidated financial statements in both Arabic and English newspapers after the approval of the Central Bank of UAE and the Shareholders at the Annual General Meeting (AGM);
- Management discussion and analysis in Arabic and English newspapers in a manner that ensures wide dissemination; and
- Publication of the annual report which includes audited consolidated financial statements.

32. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following primary risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. 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 Audit, Risk & Compliance Committee (ARCC) is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group ARCC is assisted in these functions by Internal Audit, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group ARCC.

This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Group's loans and advances, Islamic financing, amounts due from banks and investment in debt securities. For reporting purpose credit risk on Islamic financing is reported as component of credit risk on loans and advances. For risk management purposes, credit risk arising on trading investments is managed independently, but reported as a component of market risk exposure.

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(i) Management of credit risk

The Board of Directors has delegated responsibility for the management of certain levels of credit risk to the Group Credit Committee (CC), which is responsible for oversight of the Group's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing an authorization structure and limits for the approval and renewal of credit facilities. Lending authorities have been established at various levels together with a framework of dual/multiple credit approval delegated authorities. Larger facilities require approval by the CC and / or the Board of Directors, as appropriate;
- Establishing limits - actual levels of exposure are regularly reviewed at CC or Board level, as appropriate;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties;
- Designing credit review procedures so as to identify, at an early stage, exposures which require more detailed monitoring and review;
- Developing and maintaining the Group's risk grading in each category of exposures according to the degree of risk of financial loss faced and to ensure focus of management on the attendant risks. The risk grading system is used in determining whether impairment provisions may be required against specific credit exposures. The current risk grading framework consists of fourteen grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Credit and Investment Committee (CICO) and is subject to regular reviews by the Risk Management Department; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

(ii)Impaired loans and advances, Islamic financing and investment in debt securities

Individually impaired loans and advances, Islamic financing and investment debt securities are financial assets for which the Group determines that there is objective evidence of impairment and it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

The Group Credit Risk Rating Methodology, which has been internally developed based on actual historical data, is in line with the requirements set-out in the Basel II Accord and has a 14- grades framework, whereby:

- The first 9 grades are assigned to non-defaulting borrowers / performing accounts;
- Grade 10 reflects irregular accounts; and
- The last 4 grades are for defaulting borrowers / non- performing accounts.

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(ii)Impaired loans and advances, Islamic financing and investment in debt securities (continued)

Grades	Asset quality	Risk significance
1	Standard	Good, top performing assets
2-5	Standard	Good, above average performing assets
6-9	Standard	Good, below average performing assets
10	Standard	Watch-list loans / performing
11	Substandard “a”	Substandard “a”- Interest Suspended / non-performing
12	Substandard “b”	Substandard “b”- Provision Starts / non-performing
13	Doubtful	Doubtful of recovery / non-performing
14	Loss	Loss (fully provided for, or written off) / non-performing

The methodology provides a multi-dimensional approach to the Group’s Credit Risk Rating, where credit is assessed and rated on 2 dimensions, as follows:

- 1st Dimension: which assesses / rates the borrower’s probability of Default (PD); and
- 2nd Dimension: which assesses / rates the facility and the Loss-Given Default (LGD).

Both dimensions create a Credit-Risk Rating Grid/Matrix which plays a key role in pricing, approval, and credit monitoring. In order to achieve this, the Group has started pricing facilities using Risk Adjusted Return on Capital (RAROC), which leads to the Basel II compliance.

(iii) Past due but not impaired loans

These are the loans where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

(iv) Loans with renegotiated terms

Loans with renegotiated terms include loans, the repayment plan of which have been rescheduled with no other concession in amount or rate of interest. Rescheduling activity is designed to manage customer relationships. Following rescheduling, an overdue account will normally be reset from delinquent to current status. Rescheduling is done based on indications or criteria which, in the opinion of management, evidence the probability that payment will continue. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

(v) Individually impaired and restructured loans / under restructuring

Individually impaired and restructured loans / under restructuring represent loans whose terms have been restructured or are under restructuring resulting in concession in rate of interest. These loans are not delinquent; however an impairment loss is recognized on such loans. Impairment on such loans represents present value of benefit foregone by the Group. The impairment recognized will be unwound to the Group’s income statement over the term of the restructured loan.

At 31 December 2012 individually impaired and restructured loans / under restructuring amount to AED 726 million (2011: AED 1,116 million).

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vi) Exposure to credit risk

The Group measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and impairment losses, if any.

		Loans and receivables		Due from banks		Debt securities	
		2012 AED'000	2011 AED '000	**2012 AED'000**	2011 AED '000	**2012 AED'000**	2011 AED '000
i.	**Neither past due nor impaired**						
	Grades 1: good, top performing assets	**4,504,910**	1,644,539	**1,827,518**	1,700,862	**2,191,242**	1,593,677
	Grade 2-9: good, performing assets	**17,926,091**	19,804,318	-	-	-	-
	Grade 10: watch- list loans /performing	**2,367,528**	1,690,209	-	-	-	-
	Carrying amount	**24,798,529**	23,139,066	**1,827,518**	1,700,862	**2,191,242**	1,593,677
ii.	**Past due but not impaired**						
	In Grade 1 to 10						
	Less than 30 days	**226,838**	257,552	-	-	-	-
	30 – 60 days	**69,242**	168,952	-	-	-	-
	60 – 90 days	**85,849**	29,713	-	-	-	-
	Over 90 days	**461,142**	1,247,085	-	-	-	-
	Carrying amount	**843,071**	1,703,302	-	-	-	-
iii.	Individually impaired and restructured loans / under restructuring (grade 10)	**725,867**	1,115,831	-	-	-	-
iv.	**Individually impaired**						
	Grade 11: Substandard (a)	-	-	-	-	-	-
	Grade 12: Substandard (b)	**777,620**	2,112,026	-	-	-	-
	Grade 13: Doubtful	**1,868,679**	198,724	-	-	-	-
	Grade 14: Loss	**85,419**	55,141	-	-	-	-
	Carrying amount	**2,731,718**	2,365,891	-	-	-	-
v.	**Collectively impaired**						
	Grade 11: Substandard (a)	-	-	-	-	-	-
	Grade 12:Substandard (b)	**243,326**	221,704	-	-	-	-
	Grade 13: Doubtful	**3,233**	3,288	-	-	-	-
	Grade 14: Loss	**37,332**	47,077	-	-	-	-
	Carrying amount	**283,891**	272,069	-	-	-	-
	Total carrying amount	**29,383,076**	28,596,159	**1,827,518**	1,700,862	**2,191,242**	1,593,677
	Specific provision for impairment	**(1,136,306)**	(750,070)	-	-	-	-
	Collective provision for impairment related to (v) above	**(120,441)**	(150,683)	-	-	-	-
	Specific provision for individually impaired and restructured loans	**(245,265)**	(191,683)	-	-	-	-
	Interest in suspense	**(431,082)**	(258,570)	-	-	-	-
	Collective provision for impairment related to (i) and (ii) above	**(440,743)**	(430,066)	-	-	-	-
	Total provisions for impairment	**(2,373,837)**	(1,781,072)	-	-	-	-
	Carrying amount net of impairment	**27,009,239**	26,815,087	**1,827,518**	1,700,862	**2,191,242**	1,593,677

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vii) Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss component that relate to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. Assets carried at fair value through profit or loss is not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

The Group monitors concentrations of its impaired loans by sector and by geographic location. An analysis of concentrations of impaired (excluding individually impaired and restructured loans / under restructuring) loans by sector is shown below:

2012	**Impaired loans**	**Collateral**	**Specific provision and interest in suspense**
	AED'000	**AED'000**	**AED'000**
Commercial and Business:-			
Agriculture & allied activities	**509**	**-**	**487**
Mining & quarrying	**-**	**-**	**-**
Manufacturing	**214,771**	**27,459**	**101,334**
Construction	**111,327**	**43,993**	**42,176**
Trade	**1,757,450**	**476,967**	**959,335**
Transport & communication	**28,195**	**2,004**	**24,535**
Services	**334,058**	**139,093**	**192,365**
Business and investment	**286,602**	**78,748**	**173,026**
Total commercial and business	**2,732,912**	**768,264**	**1,493,258**
Banks and financial institutions	**-**	**-**	**-**
Government and public sector entities	**-**	**-**	**-**
Personal-schematic	**279,110**	**205,799**	**191,080**
Others	**3,587**	**96**	**3,491**
Total carrying amount	**3,015,609**	**974,159**	**1,687,829**

In addition to the specific provision, the Group held AED 441 million as collective provisions.

All impaired loans are located in one geographic area i.e. the United Arab Emirates. The value of collateral is restricted to lower of loan exposure or realizable value of the collateral.

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

2011	Impaired loans	Collateral	Specific provision and interest in suspense
	AED'000	AED'000	AED'000
Commercial and Business:-			
Agriculture & allied activities	354	354	354
Mining & quarrying	-	-	-
Manufacturing	73,600	35,581	39,177
Construction	647	135	499
Trade	1,560,340	365,695	555,859
Transport & communication	24,684	2,814	20,116
Services	354,564	116,070	176,918
Business and investment	349,853	144,406	161,890
Total commercial and business	2,364,042	665,055	954,813
Banks and financial institutions	-	-	-
Government and public sector entities	-	-	-
Personal-schematic	272,068	189,746	202,660
Others	1,850	139	1,850
Total carrying amount	2,637,960	854,940	1,159,323

In addition to the specific provision, the Group held AED 430 million as collective provisions.

All impaired loans are located in one geographic area i.e. the United Arab Emirates. The value of collateral is restricted to lower of loan exposure or realizable value of the collateral.

Set out below is an analysis of the gross and net (of provisions for impairment) amounts of individually impaired assets by risk grade;

	Gross	Specific Provision and interest in suspense	Net
31 December 2012	**AED'000**	**AED'000**	**AED'000**
11&12: Substandard (a & b)	**777,620**	**236,833**	**540,787**
Grade 13: Doubtful	**1,868,679**	**1,172,348**	**696,331**
Grade 14: Loss	**85,419**	**85,419**	**-**
Total	**2,731,718**	**1,494,600**	**1,237,118**
31 December 2011			
11&12: Substandard (a & b)	2,112,026	719,761	1,392,265
Grade 13:Doubtful	198,724	181,761	16,963
Grade 14: Loss	55,141	55,141	-
Total	2,365,891	956,663	1,409,228

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(viii) Write - off policy

The Group writes off a loan / investment in debt security (and any related allowances for impairment) when the Group Credit Committee determines that the loan / security is uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product-specific past due status.

(ix) Collateral

The Group holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored and updated on a periodic basis. Generally, collateral is not held against debt securities and amounts due from banks, and no such collateral was held at 31 December 2012 or 2011.

Analysis of collateral by type is presented in the following table:

	2012	2011
	AED'000	AED'000
Pledged deposits	**1,889,662**	2,899,993
Properties	**9,115,860**	9,364,390
Hypothecation & mortgages	**418,443**	606,300
Pledge of shares	**701,673**	758,820
Government and bank guarantees	**548,209**	429,945
Bills discounted-cheques	**583,969**	712,174
Others	**318,977**	63,123
Total collaterals	**13,576,793**	14,834,745

The above represents collateral value restricted to the lower of loan balance or collateral value.

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(x) Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in 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. The tables below set out the concentration of credit risk by sector, geography and currency.

Concentration of credit risk by sector for 2012

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities AED'000	Cash, balances with Central bank and other assets AED'000	Total AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
Concentration by sector								
Commercial and Business:-								
Agriculture & allied activities	19,253	-	-	-	-	19,253	81,244	44,189
Mining & quarrying	60,544	-	-	399	-	60,943	122,952	165,709
Manufacturing	1,156,224	-	-	-	-	1,156,224	633,589	307,984
Construction	3,553,533	-		-	-	3,553,533	108,235	281,065
Trade	7,258,447	-	-	-	-	7,258,447	3,315,142	2,997,361
Transport &communication	326,288	-	-	-	-	326,288	185,851	242,978
Services	4,134,894	-	-	53	-	4,134,947	1,984,015	3,158,650
Business and investment	6,104,787	-	8,338	188	-	6,113,313	1,179,204	51,789
Total commercial and Business	22,613,970	-	8,338	640	-	22,622,948	7,610,232	7,249,725
Banks and financial institutions	315,561	1,827,518	885,857	266,044	-	3,294,980	174,491	521,058
Government and public sector entities	3,488,902	-	1,297,047	-	5,133,117	9,919,066	780,886	21,505
Personal-schematic	2,079,348	-	-	-	-	2,079,348	381,138	15,869
Others	885,295	-	-	-	1,716,959	2,602,254	22,454	43,463
Total carrying amount	29,383,076	1,827,518	2,191,242	266,684	6,850,076	40,518,596	8,969,201	7,851,620

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration of credit risk by sector for 2011

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities AED'000	Cash, balances with Central bank and other assets AED,000	Total AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
Concentration by sector								
Commercial and Business:-								
Agriculture & allied activities	36,965	-	-	-	-	36,965	26,086	37,846
Mining & quarrying	268,566	-	-	-	-	268,566	236,028	37,329
Manufacturing	1,335,861	-	-	-	-	1,335,861	398,682	446,733
Construction	4,280,728	-	20,339	-	-	4,301,067	569,440	66,701
Trade	7,912,971	-	-	-	-	7,912,971	2,738,730	3,581,987
Transport &communication	359,085	-	-	-	-	359,085	159,179	221,331
Services	4,285,322	-	-	66	-	4,285,388	2,000,230	3,617,961
Business and investment	5,998,288	-	-	-	-	5,998,288	1,367,941	349,803
Total commercial and Business	24,477,786	-	20,339	66	-	24,498,191	7,496,316	8,359,691
Banks and financial institutions	319,605	1,700,862	345,484	318,099	-	2,684,050	201,150	525,875
Government and public sector entities	1,291,833	-	1,227,854	-	4,914,558	7,434,245	341,727	50,227
Personal-schematic	2,210,682	-	-	-	-	2,210,682	569,853	17,082
Others	296,253	-	-	-	1,840,609	2,136,862	37,245	187,451
Total carrying amount	28,596,159	1,700,862	1,593,677	318,165	6,755,167	38,964,030	8,646,291	9,140,326

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration of credit risk by geographic location:

2012	**Loans and advances and Islamic financing**	**Due from banks**	**Debt securities**	**Equity securities**	**Cash, balances with Central bank and other assets**	**Total**	**Undrawn commitments**	**Contingent liabilities and acceptances**
Concentration by location	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	**29,291,338**	**1,073,581**	**1,869,365**	**202,491**	**6,850,076**	**39,286,851**	**8,969,201**	**7,376,012**
GCC	**91,738**	**274,992**	**321,877**	**63,650**	**-**	**752,257**	**-**	**24,383**
Other Arab Countries	**-**	**614**	**-**	**-**	**-**	**614**	**-**	**11,291**
Europe	**-**	**310,453**	**-**	**-**	**-**	**310,453**	**-**	**358,177**
USA	**-**	**20,324**	**-**	**543**	**-**	**20,867**	**-**	**-**
Asia	**-**	**58,429**	**-**	**-**	**-**	**58,429**	**-**	**81,194**
Others	**-**	**89,125**	**-**	**-**	**-**	**89,125**	**-**	**563**
Total carrying amount	**29,383,076**	**1,827,518**	**2,191,242**	**266,684**	**6,850,076**	**40,518,596**	**8,969,201**	**7,851,620**

2011	**Loans and advances and Islamic financing**	**Due from banks**	**Debt securities**	**Equity securities**	**Cash, balances with Central bank and other assets**	**Total**	**Undrawn commitments**	**Contingent liabilities and acceptances**
Concentration by location	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	28,398,842	1,468,087	1,496,985	236,752	6,755,167	38,355,833	8,476,565	8,609,524
GCC	197,317	13,126	59,778	81,413	-	351,634	169,726	11,699
Other Arab Countries	-	632	-	-	-	632	-	13,068
Europe	-	152,427	36,914	-	-	189,341	-	370,450
USA	-	60,317	-	-	-	60,317	-	19,115
Asia	-	644	-	-	-	644	-	115,600
Others	-	5,629	-	-	-	5,629	-	870
Total carrying amount	28,596,159	1,700,862	1,593,677	318,165	6,755,167	38,964,030	8,646,291	9,140,326

32. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration of credit risk by currency:

2012	**Loans and advances and Islamic financing AED'000**	**Due from banks AED'000**	**Debt securities AED'000**	**Equity securities AED'000**	**Cash, balances with Central Bank and other assets AED'000**	**Total AED'000**	**Undrawn commitments AED'000**	**Contingent liabilities and acceptances AED'000**
Concentration by currency								
AED	**27,371,600**	**590,108**	**762,796**	**186,625**	**6,637,778**	**35,548,907**	**8,969,201**	**7,376,012**
Other currencies	**2,011,476**	**1,237,410**	**1,428,446**	**80,059**	**212,298**	**4,969,689**	**-**	**475,608**
Total carrying amount	**29,383,076**	**1,827,518**	**2,191,242**	**266,684**	**6,850,076**	**40,518,596**	**8,969,201**	**7,851,620**

2011	**Loans and advances and Islamic financing AED'000**	**Due from banks AED'000**	**Debt securities AED'000**	**Equity securities AED'000**	**Cash, balances with Central Bank and other assets AED'000**	**Total AED'000**	**Undrawn commitments AED'000**	**Contingent liabilities and acceptances AED'000**
Concentration by currency								
AED	26,795,359	170,497	978,285	222,584	6,564,378	34,731,103	8,476,565	8,600,196
Other currencies	1,800,800	1,530,365	615,392	95,581	190,789	4,232,927	169,726	540,130
Total carrying amount	28,596,159	1,700,862	1,593,677	318,165	6,755,167	38,964,030	8,646,291	9,140,326

32. FINANCIAL RISK MANAGEMENT (continued)

c) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Group's Internal Capital Adequacy Assessment Procedures (ICAAP) framework and Operational Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group Risk Management Department.

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

(i) Management of liquidity risk

Liquidity risk is managed by the Treasury and ALM department in line with the regulatory, internal policies and guidelines. The Group's approach to managing liquidity risk is to ensure that it has adequate funding from diversified sources at all times to meet its liabilities when due, under both normal and stressed conditions, without incurring un acceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, money market instruments, subordinated debts and capital. The treasury and ALM department monitor the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions.

The Group's liquidity policy is approved by the Board of Directors and reviewed annually. Adherence to the policies is monitored by the Risk Management Department and the ALCO.

The Group's liquidity management process, as carried out within the Group and monitored by Group's treasury, includes:

- Day to day funding managed by monitoring future cash flows to ensure that requirements can be met - these include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money market to facilitate funding activities;
- Maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

32. FINANCIAL RISK MANAGEMENT (continued)
d) Liquidity risk (continued)

(i)Management of liquidity risk (continued)

- Managing balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Repurchase arrangements with various Banks which allow it to repo its fixed income investments to meet any liquidity needs that may arise.

(ii) Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which stands at 82.7% *(2011: 82.8%)*. In addition, the Group also uses the following ratios/information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Third party liabilities maturing within one month to third party liabilities;
- Customers' deposits maturing within one month to customers' deposits; and
- Deposits' concentration.

The following table summarizes the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. These do not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the residual period at the reporting date to the contractual maturity date.

The maturity profile of the assets and liabilities at 31 December 2012 was as follows:

	Total	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**5,563,270**	**5,563,270**	**-**	**-**	**-**	**-**
Due from banks	**1,827,518**	**1,727,518**	**100,000**	**-**	**-**	**-**
Loans and advances and Islamic financing	**27,009,239**	**5,797,185**	**1,191,719**	**2,375,003**	**8,631,849**	**9,013,483**
Investment securities	**2,457,926**	**283,421**	**61,754**	**636,550**	**944,001**	**532,200**
Investment properties	**166,115**	**-**	**-**	**-**	**3,880**	**162,235**
Property and equipment	**432,168**	**-**	**265**	**7,121**	**54,868**	**369,914**
Other assets	**2,012,996**	**1,088,857**	**696,459**	**227,680**	**-**	**-**
Total assets	**39,469,232**	**14,460,251**	**2,050,197**	**3,246,354**	**9,634,598**	**10,077,832**
Liabilities and equity						
Due to banks	**434,864**	**239,864**	**195,000**	**-**	**-**	**-**
Customers' deposits and Islamic customers' deposits	**28,051,989**	**17,184,239**	**3,739,402**	**5,257,039**	**1,871,309**	**-**
Medium term borrowing	**2,191,207**	**-**	**-**	**-**	**2,191,207**	**-**
Other liabilities	**1,962,393**	**1,038,254**	**696,459**	**227,680**	**-**	**-**
Equity	**6,828,779**	**-**	**622,506**	**-**	**-**	**6,206,273**
Total liabilities and equity	**39,469,232**	**18,462,357**	**5,253,367**	**5,484,719**	**4,062,516**	**6,206,273**

32. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2011 was as follows:

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	5,376,083	5,376,083	-	-	-	-
Due from banks	1,700,862	1,696,547	-	4,315	-	-
Loans and advances and Islamic financing	26,815,087	7,668,354	1,278,666	2,282,243	8,873,816	6,712,008
Investment securities	1,911,842	396,614	-	342,439	876,169	296,620
Investment properties	173,823	-	-	-	4,070	169,753
Property and equipment	452,318	38	958	5,571	68,714	377,037
Other assets	1,810,469	992,681	486,844	330,944	-	-
Total assets	38,240,484	16,130,317	1,766,468	2,965,512	9,822,769	7,555,418
Liabilities and equity						
Due to banks	326,066	289,336	36,730	-	-	-
Customers' deposits and Islamic customers' deposits	28,423,430	15,725,597	4,000,514	6,695,377	160,416	1,841,526
Medium term borrowing	1,631,501	-	-	-	1,631,501	-
Other liabilities	1,537,874	720,086	486,844	330,944	-	-
Equity	6,321,613	-	399,257	-	-	5,922,356
Total liabilities and equity	38,240,484	16,735,019	4,923,345	7,026,321	1,791,917	7,763,882

The table below shows the maturity of the Group's contingent liabilities and credit commitments:

	Total	Less than 1 month	from 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
2012	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Contingent liabilities	**6,523,220**	**708,611**	**734,905**	**2,076,428**	**2,710,027**	**293,249**
Credit commitments	**8,969,201**	**247,021**	**494,042**	**741,063**	**7,487,075**	**-**
Total	**15,492,421**	**955,632**	**1,228,947**	**2,817,491**	**10,197,102**	**293,249**
2011						
Contingent liabilities	8,081,964	1,052,847	1,031,905	2,372,197	3,277,782	347,233
Credit commitments	8,646,291	238,128	476,255	714,383	7,217,525	-
Total	16,728,255	1,290,975	1,508,160	3,086,580	10,495,307	347,233

32. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

The tables below show undiscounted cash flows on the Group's financial liabilities and equity:

2012	**Total AED'000**	**Less than 1 Month AED'000**	**From 1 to 3 months AED'000**	**From 3 months to 1 year AED'000**	**From 1 to 5 years AED'000**	**Over 5 years AED'000**
Due to banks	**434,976**	**239,874**	**195,102**	**-**	**-**	**-**
Customers' deposits and Islamic customers' deposits	**28,520,489**	**17,186,437**	**3,782,884**	**5,402,454**	**2,148,714**	**-**
Medium term borrowing	**2,319,612**	**3,157**	**12,831**	**47,964**	**2,255,660**	**-**
Other liabilities	**1,962,393**	**1,038,254**	**696,459**	**227,680**	**-**	**-**
Equity	**6,828,779**	**-**	**622,506**	**-**	**-**	**6,206,273**
Total liabilities and equity	**40,066,249**	**18,467,722**	**5,309,782**	**5,678,098**	**4,404,374**	**6,206,273**

2011	**Total AED'000**	**Less than 1 Month AED'000**	**From 1 to 3 months AED'000**	**From 3 months to 1 year AED'000**	**From 1 to 5 years AED'000**	**Over 5 years AED'000**
Due to banks	326,718	289,381	37,337	-	-	-
Customers' deposits and Islamic customers' deposits	28,953,930	15,727,608	4,047,032	6,880,578	2,298,712	-
Medium term borrowing	1,867,725	-	14,325	42,975	1,810,425	-
Other liabilities	1,537,874	720,086	486,844	330,944	-	-
Equity	6,321,613	-	399,257	-	-	5,922,356
Total liabilities and equity	39,007,860	16,737,075	4,984,795	7,254,497	4,109,137	5,922,356

32. FINANCIAL RISK MANAGEMENT (continued)

e) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the Group's income and / or value of a financial instrument. The Group manages its market risk in order to achieve optimum returns while maintaining market risk exposures within set risk appetite.

(i) Management of market risk

The Board of Directors sets the risk appetite pertaining to market Risk which translates into risk limits which are closely monitored by Group Risk Management, reported daily to senior management and discussed monthly by the ALCO.

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested in the ALCO. The Group Risk Management department is responsible for the development of detailed risk management policies and for the day-to-day implementation, subject to review and approval by the ALCO.

(ii) Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based on historical and Monte Carlo simulation taking into account market data for the last 250 business days.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even with the model used there is a one per cent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day, although real time limit monitoring mitigates this risk somewhat.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for specific foreign exchange, interest rate and equity price risks. The overall structure of VaR limits is subject to review and approval by the ALCO. VaR limits are allocated only to the trading portfolio. VaR is measured at least daily for more actively traded portfolios. Daily reports of utilization of VaR limits are produced by the Group Risk Management department and periodic summaries are submitted in the ALCO.

32. FINANCIAL RISK MANAGEMENT (continued)

e) Market risks (continued)

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading portfolios and the Group's overall position.

(iii)Exposure to interest rate risk – non trading portfolio

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing bands. The Group Risk Management Department monitors compliance with these limits on a daily basis and is responsible for reporting breaches if any, to senior management. Alco review reports on a monthly basis.

In addition the Group also assesses the impact of defined movement in interest yield curves on its net interest income and regulatory capital. The following is the impact of interest rate movement on net interest income and regulatory capital:

	2012		2011	
	Net interest income		Net interest income	
	50 b.p.	**100 b.p.**	50 b.p.	100 b.p.
	AED'000	**AED'000**	AED'000	AED'000
Upward Parallel Shift	**32,698**	**65,395**	24,380	48,761
Downward Parallel Shift.	**(14,692)**	**(25,806)**	(8,059)	(13,375)

Interest rate movement is not expected to have material impact on the regulatory capital.

32. FINANCIAL RISK MANAGEMENT (continued)

e) Market risks (continued)

A summary of the Group's interest rate sensitivity position based on contractual re-pricing arrangements or maturity dates, whichever dates are earlier is as follows:

31 December 2012	**Non-interest bearing**	**Less than 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 Year**	**Total**
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**2,563,270**	**3,000,000**	**-**	**-**	**-**	**5,563,270**
Due from banks	**-**	**1,827,518**	**-**	**-**	**-**	**1,827,518**
Loans and advances and Islamic financing	**3,047,107**	**22,024,004**	**1,526,201**	**1,415,175**	**1,370,589**	**29,383,076**
Provisions	**(2,373,837)**	**-**	**-**	**-**	**-**	**(2,373,837)**
Investment securities	**283,421**	**378,203**	**488,043**	**23,507**	**1,284,752**	**2,457,926**
Investment properties	**166,115**	**-**	**-**	**-**	**-**	**166,115**
Property and equipment	**432,168**	**-**	**-**	**-**	**-**	**432,168**
Other assets	**2,012,996**	**-**	**-**	**-**	**-**	**2,012,996**
Total assets	**6,131,240**	**27,229,725**	**2,014,244**	**1,438,682**	**2,655,341**	**39,469,232**
Liabilities and equity						
Due to banks	**-**	**434,864**	**-**	**-**	**-**	**434,864**
Customers' deposits and Islamic customers' deposits	**12,673,209**	**8,935,908**	**2,571,721**	**3,083,710**	**787,441**	**28,051,989**
Medium term borrowing	**-**	**1,639,765**	**-**	**-**	**551,442**	**2,191,207**
Other liabilities	**1,962,393**	**-**	**-**	**-**	**-**	**1,962,393**
Equity	**6,828,779**	**-**	**-**	**-**	**-**	**6,828,779**
Total liabilities and equity	**21,464,381**	**11,010,537**	**2,571,721**	**3,083,710**	**1,338,883**	**39,469,232**
Interest rate sensitivity gap	**(15,333,141)**	**16,219,188**	**(557,477)**	**(1,645,028)**	**1,316,458**	**-**
Cumulative interest rate sensitivity gap	**(15,333,141)**	**886,047**	**328,570**	**(1,316,458)**	**-**	**-**

31 December 2011						
Assets						
Cash and balances with Central Bank	2,276,083	3,100,000	-	-	-	5,376,083
Due from banks	-	1,696,547	4,315	-	-	1,700,862
Loans and advances and Islamic financing	2,661,041	22,441,999	1,097,525	1,345,970	1,049,624	28,596,159
Provisions	(1,781,072)	-	-	-	-	(1,781,072)
Investment securities	340,561	590,683	426,242	26,032	528,324	1,911,842
Investment properties	173,823	-	-	-	-	173,823
Property and equipment	452,318	-	-	-	-	452,318
Other assets	1,810,469	-	-	-	-	1,810,469
Total assets	5,933,223	27,829,229	1,528,082	1,372,002	1,577,948	38,240,484
Liabilities and equity						
Due to banks	-	326,066	-	-	-	326,066
Customers' deposits and Islamic customers' deposits	9,974,487	11,697,077	2,728,640	3,980,903	42,323	28,423,430
Medium term borrowing	-	1,631,501	-	-	-	1,631,501
Other liabilities	1,537,874	-	-	-	-	1,537,874
Equity	6,321,613	-	-	-	-	6,321,613
Total liabilities and equity	17,833,974	13,654,644	2,728,640	3,980,903	42,323	38,240,484
Interest rate sensitivity gap	(11,900,751)	14,174,585	(1,200,558)	(2,608,901)	1,535,625	-
Cumulative interest rate sensitivity gap	(11,900,751)	2,273,834	1,073,276	(1,535,625)	-	-

32. FINANCIAL RISK MANAGEMENT (continued)

e) Market risks (continued)

Overall interest rate risk positions are managed by the Treasury and ALM Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's activities. Interest rate risks are assumed by ALM from the businesses through fund transfer pricing (FTP process).

f) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net spot Position	**Forward Position**	**Net exposure 2012**	**Net exposure 2011**
Currency	←	**AED'000**		→
US Dollar	**366,469**	**(299,868)**	**66,601**	(25,474)
Great Britain Pound	**(363)**	**159**	**(204)**	485
Japanese Yen	**4,370**	**(4,362)**	**8**	(11)
Euro	**(5,275)**	**5,991**	**716**	(1,727)
Others	**2,072**	**(1,500)**	**572**	5,164

A summary of capital requirement for market risk under standardized approach of Basel II is set out below:

	2012 AED'000	2011 AED'000
Equity position risk	**191**	-
Foreign currency risk	**328**	216
Interest rate risk	**550**	2,329
	1,069	2,545

32. FINANCIAL RISK MANAGEMENT (continued)

g) Equity risk

The Group has defined in its trading book policy the instruments which the Group is allowed to trade. A limited trading activity takes place in the equity market, monitored by Risk Management and in line with investment committee (IC) recommendations. Daily stop loss limits as well as portfolio notional limits are monitored daily and reported to senior management.

Analysis of equity portfolio:

	2012	2011
Publicly traded (quoted):	**AED'000**	AED'000
Equity	**171,787**	215,479
Privately held (unquoted):		
Funds of funds investments	**94,897**	102,686
Total	**266,684**	318,165

Analysis of gains or (losses) on equity investments:

	2012	2011
	AED'000	AED'000
Realized gains on sale	**3,313**	3,356
Unrealized gains / (losses) in P/L	**75**	(224)
Unrealized losses in OCI	**(39,367)**	(22,804)

The revaluation reserve on equity portfolio as at 31 December 2012 amounting to AED 38.426 million *(2011: AED* 77.793 *million)* was considered as Tier II capital.

Analysis of capital requirement for equity investments under standardized approach of Basel II:

	2012				2011			
	Strategic investment AED'000	**AFS AED'000**	**Held for trading AED'000**	**Total AED'000**	Strategic investment AED'000	AFS AED'000	Held for trading AED'000	Total AED'000
Equity	**-**	**20,471**	**143**	**20,614**	-	25,857	-	25,857
Funds of Funds investment	**3,750**	**7,638**	**-**	**11,388**	5,231	7,092	-	12,323
Total	**3,750**	**28,109**	**143**	**32,002**	5,231	32,949	-	38,180

h) Operational risk

Operational risk is defined by Basel as "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this includes legal risk but excludes strategic and reputation risks".

The Group's objective is to manage operational risk, so as to balance the avoidance of financial losses and damage to the Group's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative, innovativeness and creativity

The primary responsibility for the overseeing the establishment of sound operational risk management framework and monitoring the operational risk profile of the Group vests with the senior management of the Group, and is further assigned to the Heads of individual units, departments or branches. This

32. FINANCIAL RISK MANAGEMENT (continued)

h) Operational risk (continued)

responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions to eliminate scenarios involving any conflict of interest;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures pertaining to all activities of the bank;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action to avoid its future recurrence;
- Development of contingency plans to ensure continuity of business under all circumstances;
- Training and professional development of employees at all levels so as to increase their awareness of the subject;
- Ethical and business standards (through the Group's approved and functional Code of Ethics);
- Risk mitigation, including insurance wherever this is effective; and
- Whistle Blowing and Incident Reporting Policies are channels available to all staff for reporting of any loss events or other wrongdoings.

The Group has an approved framework for end-to-end management of its operational risks, which involves the active participation of the employees at all levels. The Operational Risk Management (ORM) plan places an equal emphasis on the identification, assessment, control and reporting of operational risks and on quantification of potential risks and resultant losses therein, if any. Reports are produced covering Operational Risk dashboards, heat-maps, loss matrices, Operational Risk register and loss databases.

The Group has in place an operational risk management system to collate operational risk information in an automated environment; this has enabled the bank to build operational risk databases to support migration to more complex approaches for computation of operational risk capital in the future.

Group Risk Management continued its efforts towards increasing bank-wide awareness about the ORM concept, by organizing workshops, seminars and training courses on the subject, for our employees, throughout the year. On an ongoing basis, Risk and Control Self Assessments (RCSA) are being carried out by all branches and units to identify the operational risks and assess the effectiveness of existing controls, so as to plan any remedial actions (if required) and minimize recurrence of loss events.

Moreover, the Group conducts an assessment of disaster recovery and business continuity position, as well as detailed system risk assessments of all new/upgraded IT systems and assessment of Operational Risk elements in any new products to be launched or procedures to be implemented. Compliance with policies and procedures is supported by periodic reviews undertaken by Internal Audit. The function also undertakes a review of the insurance coverage available to the bank to maintain oversight of adequacy of insurance as necessitated by the Basel guidelines. The unit provides regular updates to the senior management and the board Audit, Risk & Compliance Committee to support their mandate to maintain adequate oversight of the banks operational risk framework and status of operational risks across all areas of the bank.

33. CAPITAL MANAGEMENT

33-1. Regulatory capital

The Group's regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

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

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

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

The Group's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Group has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Group's management of capital during the year. 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 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, 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
  - Collective provision shall not exceed 1.25% of total risk weighted assets.

33. CAPITAL MANAGEMENT (continued)

33-2. Capital resources and adequacy

The table below summarizes the composition of regulatory capital and capital adequacy ratio calculation as per Basel II, of the Group:

	31 December 2012 AED'000	31 December 2011 AED'000
Core tier 1 capital		
Share capital	**2,038,352**	1,941,287
Legal reserve	**1,379,683**	1,379,683
General reserve	**1,100,000**	1,100,000
Retained earnings	**1,567,513**	1,431,329
Tier 1 capital	**6,085,548**	5,852,299
Upper tier 2 capital		
Fair value reserve	**36,939**	14,139
Collective provisions	**432,373**	430,066
	469,312	444,205
Lower tier 2 capital		
Subordinated term loans	**1,473,221**	1,841,526
Tier 2 capital	**1,942,533**	2,285,731
Deductions from Tier 1 & Tier 2		
Investments in un consolidated subsidiaries	**(10,000)**	(10,000)
Total capital base	**8,018,081**	8,128,030
Risk weighted assets (RWA) Pillar 1		
Credit risk	**32,246,567**	32,426,824
Market risk	**8,909**	25,449
Operation risk	**2,334,344**	2,757,596
Risk weighted assets	**34,589,820**	35,209,869
Tier 1 ratio	**17.59%**	16.62%
Capital adequacy ratio (Pillar) 1	**23.18%**	23.08%

33. CAPITAL MANAGEMENT (continued)

33-2. Capital resources and adequacy (continued)

Risk weighted capital requirement

The Group has adopted the standardized approach for credit risk and market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operation risk are given below:

(i)Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the Central Bank of UAE Basel II Capital Adequacy Framework covering the standardized approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

Funded exposure

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable external credit assessment institutions (ECAIs), except that, for all GCC sovereigns a 0% weight has been applied.

Claims on public sector entities (PSEs)

Domestic currency claims on GCC non commercial PSEs were treated as claims on GCC sovereign if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favourable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non commercial PSEs were treated one grade less favorable than its sovereign. Claims on commercial PSE were treated as claims on corporate.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with the Banks credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate portfolio

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAIs. Risk weightings for unrated corporate claims are assigned at 100%.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if they meet the criteria mentioned in the Central Bank of UAE BASEL-II guidelines.

33. CAPITAL MANAGEMENT (continued)

33-2. Capital resources and adequacy (continued)

(i)Risk weights for credit risk (continued)

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million to a single borrower and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property

100% risk weight was applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows :

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of loan;
- 100% risk weight when specific provisions are greater than 20% of the outstanding amount of loan.

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%. The aggregate investments in insurance companies amounting to AED 112,665 thousand *(2011: AED 162,359 thousand)* have been risk weighted in accordance with Basel II.

Other exposures

These are risk weighted at 100%.

Unfunded exposure

For credit-related contingent items, the nominal value is converted to an exposure through the application of Credit Conversions Factors (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

Undrawn commitments to extend credit represent commitments that have not been drawn down or utilized at the reporting date. The nominal amount provides the calculation base to which the CCF is applied for calculating the exposure. CCF range between 20% and 50% for commitment with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

33. CAPITAL MANAGEMENT (continued)
33-2. Capital resources and adequacy (continued)

(i)Risk weights for credit risk (continued)

Asset Classes	On balance Sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
2012	Gross Outstanding	Net Exposure After Credit Conversion Factors (CCF)	Exposure Before CRM	CRM	After CRM	
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on Sovereigns	**5,789,399**	**20,822**	**5,810,221**	**-**	**5,810,221**	**-**
Claims on Non-Central Government Public Sector Entities (PSE's)	**4,130,292**	**136,319**	**4,266,611**	**-**	**4,266,611**	**3,415,852**
Claims on banks	**2,742,386**	**392,879**	**3,135,265**	**-**	**3,135,265**	**950,521**
Claims on corporate	**17,386,782**	**4,373,896**	**21,511,747**	**1,200,134**	**20,311,613**	**20,311,613**
Claims included in the regulatory retail portfolio	**1,062,575**	**42,785**	**1,105,360**	**16,341**	**1,089,019**	**867,074**
Claims secured by residential property	**1,076,701**	**26,972**	**1,103,673**	**400**	**1,103,273**	**653,210**
Claims secured by commercial property	**2,867,225**	**-**	**2,867,225**	**646,719**	**2,220,506**	**2,220,506**
Non performing and past due loans	**3,476,751**	**42,277**	**1,834,864**	**26,068**	**1,808,796**	**2,279,421**
Other assets	**1,996,454**	**-**	**1,996,454**	**-**	**1,996,454**	**1,548,370**
Total claims	**40,528,565**	**5,035,950**	**43,631,420**	**1,889,662**	**41,741,758**	**32,246,567**
Settlement risk - from SR 1						**-**
Total credit risk						**32,246,567**
2011						
Claims on Sovereigns	5,319,874	27,762	5,347,636	-	5,347,636	36,914
Claims on Non-Central Government Public Sector Entities (PSES)	1,925,325	62,788	1,955,630	-	1,955,630	1,379,798
Claims on banks	2,043,123	322,656	2,365,779	-	2,365,779	821,513
Claims on corporate	17,311,915	4,690,163	22,002,078	2,455,340	19,546,738	19,546,738
Claims included in the regulatory retail portfolio	1,163,059	427,906	1,590,965	63,592	1,527,373	1,270,769
Claims secured by residential property	1,328,273	43,553	1,371,826	343	1,371,483	781,697
Claims secured by commercial property	3,234,554	-	3,234,554	-	3,234,554	3,234,554
Non performing and past due loans	4,462,604	101,701	3,245,782	380,718	2,865,064	3,657,592
Other assets	2,181,169	-	2,181,169	-	2,181,169	1,697,249
Total claims	38,969,896	5,676,529	43,295,419	2,899,993	40,395,426	32,426,824
Settlement risk - from SR 1						-
Total credit risk						32,426,824

33. CAPITAL MANAGEMENT (continued)

33-2. Capital resources and adequacy (continued)

(i)Risk weights for credit risk (continued)

The Group uses the following external credit assessment institutions (ECAIs): Standard & Poors', Moody's and Fitch. The external rating of ECAI is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings. The Group also uses various Credit Risk Mitigation techniques (CRM). However, only cash is used in calculation of Pillar I Capital requirements. The total exposure to Banks before CRM includes AED 3,206.9 million (2011: AED 2,553.6 million) rated exposure.

Risk weighted assets as per standardized approach is set out below:

	2012		2011	
	Exposure AED'000	**Risk weighted assets AED'000**	Exposure AED'000	Risk weighted assets AED'000
Gross exposure prior to CRM	**43,631,420**	**34,136,229**	43,295,419	35,326,817
Less: Eligible financial collateral	**1,889,662**	**1,889,662**	2,899,993	2,899,993
Net exposure after CRM	**41,741,758**	**32,246,567**	40,395,426	32,426,824

(ii)Risk weights for market risk

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analysed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

(iii)Risk weight for operation risk

Capital requirement for operation risk is calculated using basic indicator approach. The total capital requirement is calculated as 15% of last three years average income.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which are considered immaterial.