# Commercial Bank of Dubai PSC

## Condensed consolidated interim financial statements

*31 March 2013*

# Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
*For the three-month period ended 31 March 2013*

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ERNST & YOUNG

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# REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF COMMERCIAL BANK OF DUBAI PSC

## *Introduction*

We have reviewed the accompanying condensed consolidated interim financial statements of Commercial Bank of Dubai PSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated interim statement of financial position as at 31 March 2013 and the related consolidated interim statements of income, comprehensive income, cash flows and changes in equity for the three month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review. The condensed consolidated interim financial statements of the Group as of 31 March 2012 and the consolidated financial statements of the Group as of 31 December 2012 were reviewed and audited respectively by another auditor whose reports dated 18 April 2012 and 6 February 2013 expressed unqualified conclusion and opinion on those financial statements respectively.

## *Scope of Review*

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

## *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Ernst & Young
Signed by:
Joseph Murphy
Partner
Registration No. 492

24 April 2013
Dubai, United Arab Emirates

# Commercial Bank of Dubai PSC

## Condensed consolidated interim statement of financial position

*As at 31 March 2013*

| | Note | 31 March 2013 AED'000 (Unaudited) | 31 December 2012 AED'000 Audited | 31 March 2012 AED'000 (Unaudited) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with Central Bank | *5* | **5,112,981** | 5,563,270 | 5,727,142 |
| Due from banks | *6* | **1,313,141** | 1,827,702 | 1,184,109 |
| Loans and advances and Islamic financing | *7* | **28,039,003** | 27,302,815 | 27,761,262 |
| Investment securities | *8* | **2,554,815** | 2,378,235 | 2,226,359 |
| Investment in associate | | **61,666** | 61,374 | 56,329 |
| Investment properties | | **164,263** | 166,115 | 171,926 |
| Property and equipment | | **424,769** | 432,168 | 448,212 |
| Other assets | | **1,382,220** | 1,719,455 | 1,781,905 |
| **Total assets** | | **39,052,858** | 39,451,134 | 39,357,244 |
| **LIABILITIES AND EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Due to banks | | **416,821** | 434,864 | 1,046,476 |
| Customers' deposits and Islamic customers' deposits | *9* | **28,056,964** | 28,051,989 | 28,342,796 |
| Medium term borrowing | *10* | **2,193,273** | 2,191,207 | 1,633,567 |
| Other liabilities | | **1,932,220** | 1,962,490 | 2,204,651 |
| **Total liabilities** | | **32,599,278** | 32,640,550 | 33,227,490 |
| **EQUITY** | | | | |
| Share capital | *11* | **2,038,352** | 2,038,352 | 2,038,352 |
| Legal reserve | | **1,379,683** | 1,379,683 | 1,379,683 |
| Capital reserve | | **38,638** | 38,638 | 38,638 |
| General reserve | | **1,100,000** | 1,100,000 | 1,100,000 |
| Cumulative changes in fair values of AFS investments | | **44,337** | 24,246 | (44,482) |
| Proposed cash dividend | | - | 611,506 | - |
| Proposed directors' remuneration | | - | 11,000 | - |
| Retained earnings | | **1,838,884** | 1,593,582 | 1,602,033 |
| **Equity attributable to equity holders of the parent** | | **6,439,894** | 6,797,007 | 6,114,224 |
| **Non-controlling interest** | | **13,686** | 13,577 | 15,530 |
| **Total equity** | | **6,453,580** | 6,810,584 | 6,129,754 |
| **Total liabilities and equity** | | **39,052,858** | 39,451,134 | 39,357,244 |

The condensed consolidated interim financial statements were approved by the Board of Directors on 24th April 2013.

**Mr. Saeed Ahmed Ghobash**
**Chairman**

**Mr. Peter Baltussen**
**Chief Executive Officer**

The attached notes on pages 7 to 21 form part of these condensed consolidated interim financial statements.
The review report of the Auditors is set out on page 1.

# Commercial Bank of Dubai PSC

## Condensed consolidated interim income statement

*For the three-month period ended 31 March 2013*

| | *Note* | **31 March 2013 AED'000 (Unaudited)** | 31 March 2012 AED'000 (Unaudited) |
|---|---|---|---|
| Interest income and income from Islamic financing | | **444,421** | 420,404 |
| Interest expense and distributions to Islamic depositors | | **(85,609)** | (89,867) |
| **Net interest income and net income from Islamic financing** | | **358,812** | 330,537 |
| Net fees and commission income | | **80,479** | 91,319 |
| Net gains from foreign exchange and derivatives | | **27,824** | 29,230 |
| Net gains from investments at fair value through profit or loss - held for trading | | **373** | 691 |
| Net gains from sale of available-for-sale investments | | **16,325** | 1,756 |
| Dividend and other investment income | | **5,751** | 3,292 |
| Share of profit of associate | | **5,615** | 3,326 |
| Other income | | **6,232** | 7,667 |
| **Total operating income before provisions** | | **501,411** | 467,818 |
| Impairment allowances on loans and advances and Islamic financing | *7* | **(119,581)** | (96,152) |
| Recoveries | *7* | **4,094** | 7,191 |
| **Net operating income** | | **385,924** | 378,857 |
| General and administrative expenses | | **(128,332)** | (122,941) |
| Depreciation and amortization | | **(12,004)** | (13,860) |
| **Total operating expenses** | | **(140,336)** | (136,801) |
| **Net profit for the period** | | **245,588** | 242,056 |
| **Attributed to :** | | | |
| **Equity holders of the parent** | | **245,479** | 241,810 |
| **Non-controlling interest** | | **109** | 246 |
| **Net profit for the period** | | **245,588** | 242,056 |
| **Basic and diluted earnings per share** | *12* | **AED 0.12** | AED 0.12 |

The attached notes on pages 7 to 21 form part of these condensed consolidated interim financial statements.

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# Commercial Bank of Dubai PSC

## Condensed consolidated interim statement of comprehensive income

*For the three-month period ended 31 March 2013*

| | 31 March 2013 AED'000 (Unaudited) | 31 March 2012 AED'000 (Unaudited) |
|---|---|---|
| **Net profit for the period** | **245,588** | 242,056 |
| **Other comprehensive income:** | | |
| **Changes in available-for-sale investments:** | | |
| Realised gains on sale of available-for-sale investments | **(16,325)** | (1,756) |
| Amortisation of reclassified investments | **2,318** | 4,780 |
| Share of other comprehensive income of associate | **177** | 567 |
| Revaluation of available-for-sale investments | **33,921** | 20,187 |
| **Net change in available-for-sale investments** | **20,091** | 23,778 |
| **Other comprehensive income for the period** | **20,091** | 23,778 |
| **Total comprehensive income for the period** | **265,679** | 265,834 |
| Attributed to: | | |
| Equity holders of the parent | **265,570** | 265,588 |
| Non-controlling interest | **109** | 246 |
| **Total comprehensive income for the period** | **265,679** | 265,834 |

The attached notes on pages 7 to 21 form part of these condensed consolidated interim financial statements.

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# Commercial Bank of Dubai PSC

## Condensed consolidated interim statement of changes in equity

*For the three-month period ended 31 March 2013*

| | Share capital | Legal reserve | Capital reserve | General reserve | Cumulative changes in fair values of AFS investments | Retained earnings | Proposed distributions | Attributable to equity of the parent | Non-Controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| At 1 January 2012 | 1,941,287 | 1,379,683 | 38,638 | 1,100,000 | (68,260) | 1,454,639 | 399,257 | 6,245,244 | 15,284 | 6,260,528 |
| ***Transactions with owners, recorded directly in equity*** | | | | | | | | | | |
| Cash dividend paid for 2011 (20%) | - | - | - | - | - | - | (388,257) | (388,257) | - | (388,257) |
| Bonus shares issued for 2011 (5%) | 97,065 | - | - | - | - | (97,065) | - | - | - | - |
| Directors' remuneration paid for 2011 | - | - | - | - | - | 2,917 | (11,000) | (8,083) | - | (8,083) |
| ***Share of Directors' remuneration of associate*** | - | - | - | - | - | (268) | - | (268) | - | (268) |
| ***Comprehensive income*** | | | | | | | | | | |
| Net profit for the period | - | - | - | - | - | 241,810 | - | 241,810 | 246 | 242,056 |
| Other comprehensive income for the period | - | - | - | - | 23,778 | - | - | 23,778 | - | 23,778 |
| ***Total comprehensive income*** | - | - | - | - | 23,778 | 241,810 | - | 265,588 | 246 | 265,834 |
| **At 31 March 2012 (Unaudited)** | 2,038,352 | 1,379,683 | 38,638 | 1,100,000 | (44,482) | 1,602,033 | - | 6,114,224 | 15,530 | 6,129,754 |
| ***At 1 January 2013*** | **2,038,352** | **1,379,683** | **38,638** | **1,100,000** | **24,246** | **1,593,582** | **622,506** | 6,797,007 | **13,577** | **6,810,584** |
| ***Transactions with owners, recorded directly in equity*** | | | | | | | | | | |
| Cash dividend paid for 2012 (30%) | - | - | - | - | - | - | **(611,506)** | (611,506) | - | **(611,506)** |
| Directors' remuneration paid for 2012 | - | - | - | - | - | - | **(11,000)** | (11,000) | - | **(11,000)** |
| ***Share of Directors' remuneration of associate*** | - | - | - | - | - | **(177)** | - | (177) | - | **(177)** |
| ***Comprehensive income*** | | | | | | | | | | |
| Net profit for the period | - | - | - | - | - | **245,479** | - | 245,479 | **109** | **245,588** |
| Other comprehensive income for the period | - | - | - | - | **20,091** | - | - | 20,091 | - | **20,091** |
| ***Total comprehensive income*** | - | - | - | - | **20,091** | **245,479** | - | 265,570 | **109** | **265,679** |
| **At 31 March 2013 (Unaudited)** | **2,038,352** | **1,379,683** | **38,638** | **1,100,000** | **44,337** | **1,838,884** | - | 6,439,894 | **13,686** | **6,453,580** |

The attached notes on pages 7 to 21 form part of these condensed consolidated interim financial statements.
The review report of the Auditors is set out on page 1.

# Commercial Bank of Dubai PSC

## Condensed consolidated interim statement of cash flows

*For the three-month period ended 31 March 2013*

| | Note | 31 March 2013 AED'000 (Unaudited) | 31 March 2012 AED'000 (Unaudited) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the period | | **245,588** | 242,056 |
| Adjustments for: | | | |
| Depreciation and amortization | | **12,004** | 13,860 |
| loss on disposal of property and equipment | | **-** | 116 |
| Dividend net of investment losses | | **(3,219)** | (2,626) |
| Share of profit of associate | | **(5,615)** | (3,326) |
| Net unrealised loss / (gains) on investments at fair value through profit or loss - held for trading | | **3** | (56) |
| Realised gains on sale of investments | | **(16,570)** | (2,101) |
| Net unrealized (income) / loss on derivatives | | **(115)** | 42 |
| Increase in medium term borrowing | | **2,066** | 2,066 |
| Directors' remuneration paid | | **(11,000)** | (8,083) |
| | | **223,142** | 241,948 |
| Increase in statutory reserve with the Central Bank | | **(14,107)** | (36,559) |
| Increase in loans and advances and Islamic financing | | **(736,188)** | (782,896) |
| (Increase) / decrease in other assets | | **(16,646)** | 101,704 |
| Decrease in due from banks with original maturity of more than three months | | **-** | 4,315 |
| Increase / (decrease) in customers' deposits and Islamic customers' deposits | | **4,975** | (80,634) |
| Increase in other liabilities | | **326,055** | 431,184 |
| **Net cash flows used in operating activities** | | **(212,769)** | (120,938) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of investments | | **(554,145)** | (512,016) |
| Purchase of property and equipment | | **(2,736)** | (7,863) |
| Increase in investment properties | | **(17)** | (170) |
| Dividend income | | **10,655** | 6,967 |
| Proceeds from sale of investments | | **409,604** | 103,869 |
| Proceeds from sale of property and equipment | | **-** | 60 |
| **Net cash flows used in investing activities** | | **(136,639)** | (409,153) |
| **FINANCING ACTIVITIES** | | | |
| Dividends paid | | **(611,506)** | (388,257) |
| **Net cash flows used in financing activities** | | **(611,506)** | (388,257) |
| **Net decrease in cash and cash equivalents** | | **(960,914)** | (918,348) |
| Cash and cash equivalents at 1 January | | **5,083,529** | 5,047,093 |
| **Cash and cash equivalents at the end of the period** | *13* | **4,122,615** | 4,128,745 |

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## 1. LEGAL STATUS AND ACTIVITIES

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

The condensed consolidated interim financial statements of the Bank for the three-month period ended 31 March 2013 comprise the Bank, its subsidiaries "CBD Financial Services LLC" and Al Dana Global fixed Income Manager Selection Fund (collectively referred to as "the Group"). CBD Financial Services was incorporated on 9 March 2005 in Dubai, United Arab Emirates and is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) and commenced its operations from 9 October 2005. The Bank effectively holds 100% interest in CBD Financial Services LLC. The Bank's principal activity is commercial banking while that of CBD Financial Services LLC is to act as a broker for shares and bonds. AL Dana Global Fixed Income Manager Selection Fund is an open ended fund managed by CBD (refer note 3).

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

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 Interim Financial Reporting. These condensed consolidated interim financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2012.

### (b) Use of estimates and judgment

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2012.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies and methods of computation used for the preparation of last published annual audited consolidated financial statements as at and for the year ended 31 December 2012, except for adoption of new standards and interpretations effective as of 1 January 2013.

The Group has applied, IFRS 10 Consolidated Financial Statement for the first time during the current quarter.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

- An investor has power over an investee;
- The investor has exposure, or rights, to variable returns from its involvement with the investee; and
- The investor has the ability to use its power over the investee to affect the amount of the investor's returns.

Adoption of IFRS 10 caused Group's total assets and non-controlling interest to increase by AED 15.2 million as at 1 January 2012, AED 15.5 million as at 31st March 2012, AED 13.5 million as at 31st December 2012 and AED 13.7 million as at 31st March 2013.

Several other new standards and amendments apply for the first time in 2013. However, the Group believes that they do not have any significant impact on the financial statements of the Group.

During the current quarter, the Group reassessed its relationship with National General Insurance Co. (P.S.C.) and designated it as an associate (previously classified as an available for sale investment) which was accounted for using equity method retrospectively. This resulted in total assets and total equity to decrease by AED 76 million, AED 50 million, AED 32 million and AED 31 million as at 1 January 2012, 31 March 2012, 31 December 2012 and 31 March 2013 respectively.

### 4. RISK GOVERNANCE AND FINANCIAL RISK MANAGEMENT

The Group's Risk Governance and Financial Risk Management objectives, policies and procedures are consistent with those disclosed in the annual audited consolidated financial statements as at and for the year ended 31 December 2012.

### 5. CASH AND BALANCES WITH CENTRAL BANK

| | **31 March 2013 AED'000 (Unaudited)** | 31 December 2012 AED'000 Audited |
|---|---|---|
| Cash on hand | **411,902** | 430,153 |
| Balances with Central Bank | | |
| -Clearing account balances | **364,393** | 260,538 |
| -Statutory reserves | **1,886,686** | 1,872,579 |
| -Negotiable certificates of deposit | **2,450,000** | 3,000,000 |
| | **5,112,981** | 5,563,270 |

All the above balances are held in accounts within UAE.

## 6. DUE FROM BANKS

| | 31 March 2013 AED'000 (Unaudited) | 31 December 2012 AED'000 Audited |
|---|---|---|
| Current and demand deposits | **254,283** | 136,350 |
| Placements | **1,058,858** | 1,691,352 |
| | **1,313,141** | 1,827,702 |

| | | |
|---|---|---|
| The Geographical concentration is as follows: | | |
| Within the U.A.E. | **756,880** | 1,073,765 |
| Outside U.A.E | **556,261** | 753,937 |
| | **1,313,141** | 1,827,702 |

## 7. LOANS AND ADVANCES AND ISLAMIC FINANCING

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

| | 31 March 2013 AED'000 (Unaudited) | 31 December 2012 AED'000 Audited |
|---|---|---|
| **Loans and advances** | | |
| Overdrafts | **5,626,137** | 5,862,726 |
| Loans | **21,594,712** | 20,590,920 |
| Advances against letters of credit and trust receipts | **789,104** | 847,520 |
| Bills discounted | **694,145** | 627,553 |
| **Gross loans and advances** | **28,704,098** | 27,928,719 |
| **Islamic financing** | | |
| Murabaha | **1,049,174** | 1,007,985 |
| Ijara | **649,014** | 615,028 |
| Musharaka | **84,323** | 80,000 |
| Others | **54,655** | 44,920 |
| **Gross Islamic financing** | **1,837,166** | 1,747,933 |
| **Gross loans and advances and Islamic financing** | **30,541,264** | 29,676,652 |
| Less: provision for impairment losses on loans and advances | **(2,502,261)** | (2,373,837) |
| **Net loans and advances and Islamic financing** | **28,039,003** | 27,302,815 |

### 7. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)

| Analysis by sector | 31 March 2013 AED'000 (Unaudited) | 31 December 2012 AED'000 Audited |
|---|---|---|
| Commercial and business:- | | |
| Agriculture & allied activities | 56,606 | 19,349 |
| Mining & quarrying | 50,895 | 60,544 |
| Manufacturing | 1,225,091 | 1,178,436 |
| Construction & real estate | 3,242,578 | 3,554,948 |
| Trade | 7,605,848 | 7,372,490 |
| Transport & communication | 325,442 | 332,978 |
| Services | 5,401,565 | 4,179,013 |
| Business and investment | 5,948,536 | 6,105,021 |
| Total commercial and business | 23,856,561 | 22,802,779 |
| Banks and financial institutions | 295,552 | 315,561 |
| Government and public sector entities | 3,737,249 | 3,488,902 |
| Personal – schematic | 2,356,104 | 2,183,599 |
| Others | 295,798 | 885,811 |
| **Gross loans and advances and Islamic financing** | 30,541,264 | 29,676,652 |
| Less: Provisions for impairment losses | (2,502,261) | (2,373,837) |
| **Net loans and advances and Islamic financing** | 28,039,003 | 27,302,815 |

The movement in provisions for impairment losses is as follows:

| | Interest suspended AED'000 | Specific provisions AED'000 | Collective provisions AED'000 | Total AED'000 |
|---|---|---|---|---|
| **Opening balance 1 January 2013** | 431,553 | 1,501,541 | 440,743 | 2,373,837 |
| Interest not recognized / new provisions raised | 50,130 | 119,581 | - | 169,711 |
| **Less:** | | | | |
| Written-Off | (418) | (52) | - | (470) |
| Recoveries | (2,368) | (1,726) | - | (4,094) |
| Reversal to income | (35,571) | - | - | (35,571) |
| Amortization of interest impairment | - | (1,152) | - | (1,152) |
| **Closing Balance 31 March 2013 (Unaudited)** | 443,326 | 1,618,192 | 440,743 | 2,502,261 |

**7. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)**

| | 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 | 44,275 | 94,452 | 1,700 | 140,427 |
| **Less:** | | | | |
| Recoveries | (3,191) | (4,000) | - | (7,191) |
| Amortization of interest impairment | - | (1,151) | - | (1,151) |
| **Closing Balance 31 March 2012 (Unaudited)** | 299,654 | 1,181,737 | 431,766 | 1,913,157 |

## 8. INVESTMENT SECURITIES

| **31 March 2013 (Unaudited)** | **Domestic AED'000** | **GCC AED'000** | **International AED'000** | **Total AED'000** |
|---|---|---|---|---|
| **Held for trading** | | | | |
| Fixed rate securities | | | | |
| - Government | 3,504 | - | - | 3,504 |
| - Others | 7,216 | 5,510 | - | 12,726 |
| **Available-for-sale** | | | | |
| Equities | 113,645 | - | - | 113,645 |
| Fund of funds | 36,926 | 68,403 | - | 105,329 |
| Fixed rate securities | | | | |
| - Government | 639,807 | 144,740 | - | 784,547 |
| - Others | 610,908 | 120,700 | 19,100 | 750,708 |
| Floating rate non government securities | 67,858 | 65,655 | - | 133,513 |
| **Held-to-maturity** | | | | |
| Fixed rate government securities | 179,643 | - | - | 179,643 |
| Floating rate securities | | | | |
| - Government | 435,939 | - | - | 435,939 |
| - others | 35,261 | - | - | 35,261 |
| **Total investment securities** | 2,130,707 | 405,008 | 19,100 | 2,554,815 |

| **31 December 2012 (Audited)** | **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 | 77,446 | - | - | 77,446 |
| Fund of funds | 40,245 | 63,650 | - | 103,895 |
| Fixed rate securities | | | | |
| - Government | 534,165 | 146,314 | - | 680,479 |
| - Others | 468,894 | 106,780 | - | 575,674 |
| 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** | 1,992,165 | 385,527 | 543 | 2,378,235 |

## 9. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS

| Customers' deposits | 31 March 2013 AED'000 (Unaudited) | 31 December 2012 AED'000 Audited |
|---|---|---|
| Current and demand accounts | **11,489,221** | 10,523,573 |
| Savings accounts | **1,343,874** | 1,283,371 |
| Time deposits | **11,507,872** | 12,825,633 |
| | **24,340,967** | 24,632,577 |
| **Islamic customers' deposits** | | |
| Current and demand accounts | **610,148** | 425,322 |
| Mudaraba saving | **252,646** | 253,105 |
| Investment deposits and Wakala | **2,853,203** | 2,740,985 |
| | **3,715,997** | 3,419,412 |
| **Total customers' deposits and Islamic customers' deposits** | **28,056,964** | 28,051,989 |

***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 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.

## 10. MEDIUM TERM BORROWING

***Syndicated loan***
In August 2011, the Group entered into a club deal of USD 450 million to replace the syndicated loan arrangement of USD 400 million for a term of 3 years with an option to roll over on a quarterly or semi-annual basis. The arrangement carries interest at the rate of 3 month LIBOR plus 175 basis points payable on a quarterly basis.
***Repurchase agreements***
In July 2012, the Group entered into Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 150.1 million with arrangements to repurchase them at a fixed future date in July 2017.

## 11. EQUITY

**Share capital**
The issued and fully paid up ordinary share capital as at 31 March 2013 comprised 2,038,351,976 ordinary shares of AED 1 each (31 December 2012: 2,038,351,976 shares of AED 1 each).

## 12. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share is based on the Group's profit for the three month period ended 31 March 2013 attributable to the shareholders amounting to AED 245.5 million *(three month period ended 31 March 2012: AED 241.8 million)*, and on the weighted average number of shares in issue totaling 2,038,351,976 (31 March 2012: 2,038,351,976).

## 13. CASH AND CASH EQUIVALENTS

| | **31 March 2013 AED'000 (Unaudited)** | 31 March 2012 AED'000 (Unaudited) |
|---|---|---|
| Cash in hand | **411,902** | 461,517 |
| Balances with the Central Bank | **364,393** | 29,595 |
| Negotiable certificate of deposits with the Central Bank | **2,450,000** | 3,500,000 |
| Due from banks with original maturities less than three months | **1,313,141** | 1,184,109 |
| | **4,539,436** | 5,175,221 |
| Due to banks with original maturities less than three months | **(416,821)** | (1,046,476) |
| | **4,122,615** | 4,128,745 |

## 14. CONTINGENT LIABILITIES AND COMMITMENTS

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

| | 31 March 2013 AED'000 (Unaudited) | 31 December 2012 AED'000 Audited |
|---|---|---|
| **Contingent liabilities:** | | |
| Letters of credit | **926,669** | 967,836 |
| Guarantees | **5,233,194** | 5,555,384 |
| | **6,159,863** | 6,523,220 |
| **Credit commitments:** | | |
| Undrawn commitments to extend credit | **8,508,899** | 8,969,201 |
| **Total contingent liabilities and credit commitments** | **14,668,762** | 15,492,421 |

## 15. SEGMENTAL REPORTING

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

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

***Business segments***

| | |
|---|---|
| Corporate banking | Includes loan and other credit facilities, 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.

## 15. SEGMENTAL REPORTING (CONTINUED)

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

| | Corporate banking AED'000 | Commercial banking AED'000 | Consumer banking AED'000 | Treasury & investments AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **31 March 2013 (Unaudited)** | | | | | |
| **Assets** | **20,790,179** | **6,615,524** | **2,517,178** | **9,129,977** | **39,052,858** |
| **Liabilities** | **14,404,691** | **8,444,284** | **7,116,976** | **2,633,327** | **32,599,278** |
| 31 December 2012(Audited) | | | | | |
| **Assets** | 20,664,389 | 6,436,217 | 2,445,753 | 9,904,775 | 39,451,134 |
| **Liabilities** | 14,806,816 | 8,471,619 | 6,728,927 | 2,633,188 | 32,640,550 |
| **31 March 2013 (Unaudited)** | | | | | |
| Net interest income and income from Islamic financing | **195,495** | **99,083** | **43,262** | **20,972** | **358,812** |
| Inter segment income | **(17,069)** | **2,326** | **5,235** | **9,508** | **-** |
| Other income | **45,251** | **44,067** | **14,180** | **39,101** | **142,599** |
| **Total income** | **223,677** | **145,476** | **62,677** | **69,581** | **501,411** |
| Allocated cost | **35,463** | **59,314** | **27,878** | **5,677** | **128,332** |
| Impairment allowances net of recoveries | **83,998** | **22,757** | **8,732** | **-** | **115,487** |
| Depreciation and amortization | **5,493** | **2,753** | **3,499** | **259** | **12,004** |
| **Total expenses** | **124,954** | **84,824** | **40,109** | **5,936** | **255,823** |
| **Net profit for the period** | **98,723** | **60,652** | **22,568** | **63,645** | **245,588** |
| 31 March 2012 (Unaudited) | | | | | |
| Net interest income and income from Islamic financing | 174,632 | 95,064 | 43,085 | 17,756 | 330,537 |
| Inter segment income | (17,506) | 3,005 | 5,256 | 9,245 | - |
| Other income | 50,085 | 46,703 | 15,778 | 24,715 | 137,281 |
| **Total income** | 207,211 | 144,772 | 64,119 | 51,716 | 467,818 |
| Allocated cost | 33,682 | 59,421 | 24,324 | 5,514 | 122,941 |
| Impairment allowances net of recoveries | 70,631 | 11,396 | 6,934 | - | 88,961 |
| Depreciation and amortization | 5,883 | 2,897 | 3,898 | 1,182 | 13,860 |
| **Total expenses** | 110,196 | 73,714 | 35,156 | 6,696 | 225,762 |
| **Net profit for the period** | 97,015 | 71,058 | 28,963 | 45,020 | 242,056 |

## 16. FINANCIAL ASSETS AND LIABILITIES

### 16.1 Financial assets and liabilities classification

The table below sets out the Group's assets and liabilities classification in accordance with the categories of financial instruments in IAS 39:

| | Fair value through Profit or loss AED'000 | Amortized Cost: Held-to-maturity AED'000 | Amortized Cost: Loans and receivables AED'000 | Available-for-sale at fair value AED'000 | Other amortized cost AED'000 | Total carrying amount AED'000 |
|---|---|---|---|---|---|---|
| **31 March 2013 (Unaudited)** | | | | | | |
| Cash and balances with central bank | - | - | - | - | 5,112,981 | 5,112,981 |
| Due from banks | - | - | - | - | 1,313,141 | 1,313,141 |
| Loans and advances and Islamic financing | - | - | 28,039,003 | - | - | 28,039,003 |
| Investment securities | 16,230 | 650,843 | - | 1,887,742 | - | 2,554,815 |
| Other assets | 17,117 | - | - | - | 1,336,054 | 1,353,171 |
| **Total financial asset** | 33,347 | 650,843 | 28,039,003 | 1,887,742 | 7,762,176 | 38,373,111 |
| Due to banks | - | - | - | - | 416,821 | 416,821 |
| Customers' deposits and Islamic customers' deposits | - | - | - | - | 28,056,964 | 28,056,964 |
| Medium term borrowing | - | - | - | - | 2,193,273 | 2,193,273 |
| Other liabilities | 15,249 | - | - | - | 1,860,139 | 1,875,388 |
| **Total financial liabilities** | 15,249 | - | - | - | 32,527,197 | 32,542,446 |
| **31 December 2012 (Audited)** | | | | | | |
| Cash and balances with central bank | - | - | - | - | 5,563,270 | 5,563,270 |
| Due from banks | - | - | - | - | 1,827,702 | 1,827,702 |
| Loans and advances and Islamic financing | - | - | 27,302,815 | - | - | 27,302,815 |
| Investment securities | 17,932 | 648,303 | - | 1,712,000 | - | 2,378,235 |
| Other assets | 2,113 | - | - | - | 1,691,799 | 1,693,912 |
| **Total financial assets** | 20,045 | 648,303 | 27,302,815 | 1,712,000 | 9,082,771 | 38,765,934 |
| 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 | - | - | - | 1,906,818 | 1,907,178 |
| **Total financial liabilities** | 360 | - | - | - | 32,584,878 | 32,585,238 |

**16. FINANCIAL ASSETS AND LIABILITIES (continued)**

**16.2 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:

| **31 March 2013 (Unaudited)** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** |
|---|---|---|---|
| Investments | | | |
| Equity | 95,409 | 18,236 | - |
| Fund of funds | - | 105,329 | - |
| Fixed and floating rate securities | 1,684,998 | - | - |
| Forward foreign exchange contracts and other derivatives (net) | - | 1,868 | - |

| **31 December 2012 (Audited)** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** |
|---|---|---|---|
| Investments | | | |
| Equity | 60,405 | 18,236 | - |
| Fund of funds | - | 103,895 | - |
| Fixed and floating rate securities | 1,547,396 | - | - |
| Forward foreign exchange contracts and other derivatives (net) | - | 1,753 | - |

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.

## 17. RELATED PARTY TRANSACTIONS

| | Directors and key management personnel | | Other related parties | |
|---|---|---|---|---|
| | **31 March 2013 AED'000 (Unaudited)** | 31 December 2012 AED'000 Audited | **31 March 2013 AED'000 (Unaudited)** | 31 December 2012 AED'000 Audited |
| **Loans and advances** | **74,975** | 76,566 | **684,992** | 701,137 |
| **Deposits** | **11,164** | 5,728 | **1,598,318** | 1,768,907 |

| | **31 March 2013 AED'000 (Unaudited)** | 31 March 2012 AED'000 (Unaudited) | **31 March 2013 AED'000 (Unaudited)** | 31 March 2012 AED'000 (Unaudited) |
|---|---|---|---|---|
| Interest income | **758** | 86 | **5,551** | 4,656 |
| Interest expense | **3** | 3 | **5,019** | 1,059 |

No provisions for impairment have been recognised in respect of loans given to related parties *(31 December 2012: NIL).*

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

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

**Key management compensation**

| | **31 March 2013 AED'000 (Unaudited)** | 31 March 2012 AED'000 (Unaudited) |
|---|---|---|
| Salaries | **2,458** | 2,797 |
| Post benefits | **130** | 138 |
| Other benefits | **1,364** | 2,055 |

## 18. CAPITAL ADEQUACY

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

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

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

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

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

  The following limits have been applied for Tier 2 capital:

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

## 18. CAPITAL ADEQUACY (CONTINUED)

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

| | 31 March 2013 AED'000 (Unaudited) | 31 December 2012 AED'000 (Audited) |
|---|---|---|
| **Core tier 1 capital** | | |
| Share capital | **2,038,352** | 2,038,352 |
| Legal reserve | **1,379,683** | 1,379,683 |
| General reserve | **1,100,000** | 1,100,000 |
| Retained earnings | **1,838,884** | 1,593,582 |
| **Tier 1 capital** | **6,356,919** | 6,111,617 |
| **Upper tier 2 capital** | | |
| Fair value reserve | **19,952** | 10,911 |
| Collective provisions | **437,558** | 432,373 |
| | **457,510** | 443,284 |
| **Lower tier 2 capital** | | |
| Subordinated term loans | **1,104,916** | 1,473,221 |
| **Tier 2 capital** | **1,562,426** | 1,916,505 |
| **Deductions from Tier 1 & Tier 2** | | |
| Investments in un consolidated subsidiaries | **(10,000)** | (10,000) |
| **Total capital base** | **7,909,345** | 8,018,122 |
| **Risk weighted assets (RWA) Pillar 1** | | |
| Credit risk | **32,649,057** | 32,246,567 |
| Market risk | **21,225** | 8,909 |
| Operation risk | **2,334,344** | 2,334,344 |
| **Risk weighted assets** | **35,004,626** | 34,589,820 |
| **Tier 1 ratio** | **18.16%** | 17.67% |
| **Capital adequacy ratio (Pillar) 1** | **22.60%** | 23.18% |

## 19. COMPARATIVE FIGURES

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