Invest bank P.S.C.

Consolidated financial statements
31 December 2012

Registered office

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P O Box 1885 - Sharjah
United Arab Emirates

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Independent Auditors' Report

The Shareholders
Invest bank P.S.C

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Invest bank PSC ("the Bank") and its subsidiary (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income (comprising a consolidated statement of comprehensive income and a separate consolidated income statement), 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.

KPMG

Independent Auditors' Report (continued)

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 Bank; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Bank'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

Munther Dajani

Registration No. 268

17 January 2013

Invest bank P.S.C.
Consolidated statement of financial position
at 31 December

	Note	**2012** **AED'000**	2011 AED'000
Assets			
Cash and deposits with the UAE Central Bank	*8*	**434,506**	612,679
Loans and advances to banks	*9*	**1,400,656**	773,356
Customers' indebtedness for acceptances	*26*	**361,589**	473,983
Loans and advances to customers	*4(b)*	**8,141,354**	7,848,579
Investment securities	*10*	**830,768**	525,848
Property and equipment	*11*	**65,683**	42,901
Other assets	*12*	**175,016**	125,608
Total assets		**11,409,572**	10,402,954
Liabilities			
Deposits from other banks	*13*	**24,322**	117,696
Deposits from customers	*14*	**8,519,376**	7,539,476
Liabilities under acceptances	*26*	**361,589**	473,983
Other liabilities	*15*	**157,572**	149,380
Total liabilities		**9,062,859**	8,280,535
Equity			
Share capital	*16*	**1,250,000**	1,155,000
Legal reserve	*16*	**329,480**	297,009
Special reserve	*16*	**329,480**	297,009
Revaluation reserve	*10*	**(76,229)**	(91,892)
Retained earnings		**513,982**	465,293
Total equity		**2,346,713**	2,122,419
Total liabilities and equity		**11,409,572**	10,402,954

The notes on pages 10 to 54 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 17 January 2013 and signed on its behalf by:

General Manager

Director

The independent auditors' report is set out on page 3 & 4.

Invest bank P.S.C.
Consolidated income statement
for the year ended 31 December

	Note	2012 AED'000	2011 AED'000
Operating income			
Interest income	17	632,733	629,020
Interest expense	17	(208,069)	(237,430)
Net interest income	17	424,664	391,590
Net fees and commission income	18	112,514	109,453
		537,178	501,043
Net income from dealing in foreign currencies		17,962	20,825
Net gains/(losses) from investment securities	10	499	(687)
Other operating income	19	10,170	4,429
Total operating income		565,809	525,610
Operating expenses			
General and administrative expenses	20	(115,475)	(104,960)
Specific impairment provision on loans and advances, net	4(b)	(94,216)	(87,492)
Portfolio impairment provision	4(b)	(23,499)	(6,976)
Provision for other expenses	21	(7,905)	(8,885)
Total operating expenses		(241,095)	(208,313)
Net profit for the year		324,714	317,297
Earnings per share (UAE Dirham's)	22	0.260	0.254

The notes on pages 10 to 54 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 3 & 4.

Invest bank P.S.C.

Consolidated statement of comprehensive income
for the year ended 31 December

	2012 AED'000	2011 AED'000
Net profit for the year	324,714	317,297
Other comprehensive income:		
Change in fair value of financial assets measured at fair value through other comprehensive income	15,950	(54,075)
Amortisation of fair value movements on reclassified investments	180	180
Total other comprehensive income	16,130	(53,895)
Total comprehensive income for the year	340,844	263,402

The notes on pages 10 to 54 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 3 & 4.

Invest bank P.S.C.
Consolidated statement of changes in equity
for the year ended 31 December

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Retained earnings AED'000	Fair Value reserves AED'000	Total AED'000
At 1 January 2011	**1,155,000**	**265,279**	**265,279**	**362,806**	**(37,997)**	**2,010,367**
Total comprehensive income for the year						
Profit for the year	-	-	-	317,297	-	317,297
Other comprehensive income						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	-	(54,075)	(54,075)
Amortisation of fair value movements on reclassified investments	-	-	-	-	180	180
Gain on sale of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	(53,895)	(53,895)
Total comprehensive income for the year	-	-	-	317,297	(53,895)	263,402
Directors remuneration	-	-	-	(1,200)	-	(1,200)
Cash dividend paid	-	-	-	(150,150)	-	(150,150)
Transfers to reserve	-	31,730	31,730	(63,460)	-	-
At 31 December 2011	**1,155,000**	**297,009**	**297,009**	**465,293**	**(91,892)**	**2,122,419**
At 1 January 2012	**1,155,000**	**297,009**	**297,009**	**465,293**	**(91,892)**	**2,122,419**
Total comprehensive income for the year						
Profit for the year	-	-	-	324,714	-	324,714
Other comprehensive income						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	-	15,950	15,950
Amortisation of fair value movements on reclassified investments	-	-	-	-	180	180
Gain on sale of financial assets measured at fair value through other comprehensive income	-	-	-	467	(467)	-
Total other comprehensive income	-	-	-	467	15,663	16,130
Total comprehensive income for the year	-	-	-	325,181	15,663	340,844
Directors remuneration	-	-	-	(1,050)	-	(1,050)
Issue of bonus share	95,000	-	-	(95,000)		-
Cash dividend paid	-	-	-	(115,500)	-	(115,500)
Transfers to reserve	-	32,471	32,471	(64,942)		-
At 31 December 2012	**1,250,000**	**329,480**	**329,480**	**513,982**	**(76,229)**	**2,346,713**

The notes on pages 10 to 54 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 & 4.

Invest bank P.S.C.
Consolidated cash flow statement
for the year ended 31 December

	Note	2012 AED'000	2011 AED'000
Cash flows from operating activities			
Net profit for the year		324,714	317,297
Adjustments for:			
Depreciation		6,022	5,613
Amortisation of premium on bonds		3,799	1,605
Net (gains)/losses from investment securities		(499)	687
Net (gains)/losses from revaluation of investment property		(2,640)	2,480
Net impairment losses and portfolio impairment provisions		117,715	94,468
Dividend Income		(5,653)	(5,267)
		443,458	416,883
Changes in time deposits with other banks and certificates of deposit of the UAE Central Bank maturing after three months		(155,095)	55,509
Change in loans and advances to customers		(410,490)	(423,692)
Change in other assets		(51,876)	(50,155)
Change in deposits from customers		979,900	(103,102)
Change in other liabilities		8,192	7,095
Directors' remuneration paid		(1,050)	(1,200)
Net cash generated from /(used in) operating activities		813,039	(98,662)
Cash flows from investing activities			
Purchase of property and equipment, net		(23,696)	(7,058)
Purchase of investment securities		(316,337)	(43,366)
Proceeds from sale of investment securities		24,247	-
Dividend received		5,653	5,267
Net cash used in investing activities		(310,133)	(45,157)
Cash flows from financing activity			
Cash dividend paid		(115,500)	(150,150)
Net cash used in financing activity		(115,500)	(150,150)
Net increase/(decrease) in cash and cash equivalents		387,406	(293,969)
Cash and cash equivalents at 1 January		1,273,848	1,567,817
Cash and cash equivalents at 31 December	23	1,661,254	1,273,848

The notes on pages 10 to 54 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 3 & 4.

1 Legal status and activities

Invest bank P.S.C. ('Invest bank' or "the Bank") is a public shareholding company with limited liability and was incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered office of the Bank is at Al Borj avenue, P.O.Box 1885, Sharjah, United Arab Emirates ("UAE").

The principal activity of Invest bank is to provide corporate and retail banking services within the UAE. The Bank is also involved in investment activities. Invest Bank operates through branches located in Sharjah, Abu Dhabi, Al Ain, Dubai, Ajman, Ras Al Khaimah and Fujairah. A foreign branch in Lebanon is under incorporation. The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

The Bank has one fully owned subsidiary company, ALFA Financial Services FZE which was established in July 2010 with limited liability status in the Sharjah Airport International Free Zone to provide support services to the Bank.

The consolidated financial statements for the year ended 31 December 2012 comprise the Bank and its subsidiary (together referred to as "the Group").

2 Basis of preparation

a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and comply with the guidelines of the UAE Central Bank.

The Group had adopted IFRS 9, Financial instruments in 2010 in advance of its effective date. The Group had chosen 1 April 2010 as its date of initial application.

b) *Basis of measurement*

The consolidated financial statements have been prepared on a historical cost basis except for the following which are stated at fair value:

- Investment properties;
- Derivative financial instruments;
- Financial instruments at fair value through profit or loss; and
- Financial investments at fair value through other comprehensive income.

c) *Functional and presentation currency*

These consolidated financial statements have been presented using UAE Dirham ("AED"), which is the Group's functional currency. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand.

d) *Use of estimates and judgments*

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 6.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been consistently applied by the Group entities.

a) Basis of consolidation

Subsidiary

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

Transactions eliminated on consolidation

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

b) Interest income and expense

Interest income and interest expense are recognised in income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense presented in the income statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expenses; and

- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of inherent rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from investments.

Fair value changes on the other derivatives held for risk management purposes, and all other financial assets and liabilities carried at FVTPL (fair value through profit and loss) are presented in net income from dealing in foreign currencies and net losses from investment securities in the income statement.

3 Summary of significant accounting policies

c) **Fees and commission income**

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 the effective interest rate.

Other fees and commission income are generally recognised on an accruals basis when the related services are performed by the Group. When a loan commitment is not expected to result in the draw-down of a loan, commitment fees are recognised on a straight line basis over the commitment period. Other fees and commission expenses are expensed as the related services are received.

d) **Dividend income**

Dividend income is recognised in the income statement when the Group's right to receive income is established. Usually this is the ex-dividend date for equity securities.

e) **Financial assets**

Recognition
The Group initially recognises loans and advances, deposits, debt securities issued and subordinate liabilities on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

A financial assets or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Classification
At inception a financial asset is classified as measured at amortised cost or fair value.

A financial asset qualifies for amortised cost measurement only if it meets both of the following two conditions :
- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principle and interest on the principle amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflect the best way the business is managed and information is provided to the management.
In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:
- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest revenue;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Group has designated certain financial assets at fair value through profit or loss because designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

3 Summary of significant accounting policies *(continued)*

e) Financial assets (continued)
Classification (continued)
Financial assets at FVTOCI

At initial recognition the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in certain equity instruments as at FVTOCI (fair value through other comprehensive income). Designation to FVTOCI is not permitted if the equity instrument is held for trading.

Dividend in these investments in equity instruments are recognised in the income statement when the Bank's right to receive the dividends is established, unless the dividends clearly represents a recovery of part of the cost of the investment.

Gains and losses on such equity instruments are never reclassified to income statement and no impairment is recognised in profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

Impairment of financial assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost are impaired. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Group considers evidence of impairment at both a specific and collective level.

Objective evidence that financial assets 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, indication 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 change in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Specific level
At each reporting date, the Bank assesses on a case-by-case basis whether there is any objective evidence that a asset is impaired. Impairment losses on assets carried at amortised 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.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss is measured as follows :

a) If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

b) If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Collective level
Impairment is determined on a collective basis for two different scenarios:
- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified.

- for homogeneous groups of loans that are not considered individually significant.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly bechmarked against actual outcomes to ensure that they remain appropriate.

3 Summary of significant accounting policies *(continued)*

e) Financial assets (continued)

Impairment of financial assets carried at amortised cost (*continued*)

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for loan impairment in the income statement.

Impairment losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

De-recognition of financial assets

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of the ownership are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control on the financial asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Group is recognised as separate asset or liability in the statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in income statement.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the financial assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfer of assets with retention of all or substantially all risks and rewards include, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the services.

3 Summary of significant accounting policies ***(continued)***

f) Financial liabilities and equity instruments issued by the bank

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

Other financial liabilities

Other financial liabilities, including Group borrowings and customers' deposits, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Amortised Cost

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together fro short - term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in the income statement. All changes in fair value are recognised as part of net trading income in income statement.

Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss in either of the following circumstances :

- the assets or liabilities 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 or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

g) Offsetting

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

3 Summary of significant accounting policies *(continued)*

h) 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.

When 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 instruments 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 Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other observable current market data.

Assets and long positions are measured at bid price; liabilities and short positions are measured at an asking price. 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 Group measures fair value using the following fair value hierarchy that reflects the significance of input used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

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 similar or identical instruments in markets that are considered less than active; 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 not based on observable data and the unobservable inputs have a significant effect on 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.

i) Derivative financial instruments

Derivatives held for internal risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position and all changes in their fair value are recognised immediately in income statement. The Group uses derivative financial instruments primarily to satisfy the requirements of its customers.

3 Summary of significant accounting policies *(continued)*

j) Foreign currency transactions

The accounting records of the Group are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to UAE Dirhams at the spot foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign currency differences arising on re-translation are recognised in profit or loss, except for differences arising on the re-translation of FVTOCI, which are recognised directly in other comprehensive income.

k) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of replacing part of an item of property or equipment is recognised in the carrying amount 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 costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of assets as follows:

Buildings	20
Office installations and improvements	10
Office furniture and equipment	2 to 5
Motor vehicles	3

Depreciation methods, useful lives and residual values are reassessed at the reporting date. No depreciation is charged on freehold land and capital-work-in-progress. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

l) Investment Property

Investment Property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Group holds some investment property acquired through the enforcement of security over loans and advances. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the income statement. The Group determines fair value on the basis of valuation provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

m) Staff terminal benefits

Staff benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. On the termination of employment, expatriate employees are entitled to receive end of service benefits in accordance with the UAE labour law. The Group accrues for its liability in this respect based on the liability that would arise under the UAE labour law if the employment of all staff were terminated at the reporting date, which is not expected to be materially different to that computed in accordance with IFRS. The accrual for the period is charged to the income statement.

The Group contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Group's contributions are charged to the statement of income in the period to which they relate. In respect of this scheme, the Group has a legal and constructive obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

3 Summary of significant accounting policies *(continued)*

n) Provisions

A provision is recognised 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 to reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

o) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contracts has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

p) Earnings per share

The Group presents basic 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 Group by the weighted average number of ordinary shares outstanding during the period.

q) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with the Central Bank of the UAE, amounts due from other banks and deposits from other banks that are held for the purpose of meeting short term cash commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

r) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and the Group does not intend to sell immediately in the near future.

Loans and advances are initially measured at fair value plus incremental direct transaction cost. Subsequent to the initial recognition loans and advances are measured at amortised cost using the effective interest method, except when the Group recognises the loans and advances at fair value through profit or loss.

When the Group is a lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as finance lease and a receivable equal to the net investment in lease is recognised and presented within loans and advances.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statement.

s) Investment Securities

Investment securities are initially measured at fair value plus in case of investment securities not at fair value through profit or loss, incremental direct transaction cost. Subsequent to initial recognition investment securities are accounted for depending upon their classification as either amortised cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortised cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flow and the contractual terms of financial assets give rise, on specific dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity instruments held for strategic purpose in other comprehensive income. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

3 Summary of significant accounting policies *(continued)*

s) Investment Securities (continued)

Gains and losses on such equity instruments are never reclassified to income statement and no impairment is recognised in the income statement.

t) Dividend on ordinary shares

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

u) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

v) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

w) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of a non - financial asset is the greater of its value in use and its fair value less cost to sell. The reduction in value is recognised in the income statement.

x) 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, whose operating results are reviewed regularly by the Executive 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.

y) Directors remuneration

In accordance with the Ministry of Economy and Commerce Interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), directors' remuneration of the Group has been treated as an appropriation from equity and presented under statement of changes in equity.

z) New standards and interpretations not yet adopted

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.

IAS 1 (Amendment)	Presentation of Financial Statements	(effective 1 July 2012)
IFRS 7 (Amendment)	Financial Instruments: Disclosures	(effective 1 January 2013)

3 Summary of significant accounting policies *(continued)*

z) New standards and interpretations not yet adopted *(continued)*

IFRS 10	Consolidated Financial Statements	(effective 1 January 2013)
IFRS 11	Joint Arrangements	(effective 1 January 2013)
IFRS 12	Disclosure of Interest in other entities	(effective 1 January 2013)
IFRS 13	Fair Value Measurement	(effective 1 January 2013)
IAS 19 (Amendment)	Employee Benefits	(effective 1 January 2013)
IAS 27 (Amendment)	Separate Financial Statements	(effective 1 January 2013)
IAS 28 (Amendment)	Investments in Associates and joint ventures	(effective 1 January 2013)
IAS 32 (Amendment)	Financial Instruments : Presentation	(effective 1 January 2014)
IFRS 9	Financial Instruments	(effective 1 January 2015)

The standards which might have material impact on the Group financial statements in the period of initial application are as follows :

The Group is already following IFRS 9 (2009) which sets out guidelines for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a limited pervasive impact on the Group's consolidated financial statements.

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. It is not expected to have much impact on the Group accounting for investees.

IFRS 11 is not expected to have any impact on the Group because the Group does not have interests in joint ventures.

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It is not expected to have much impact on the Group as the Group does not have any joint arrangements, associates or unconsolidated structured entities.

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. The group is currently reviewing its methodologies for determining fair values. 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 Risk Management

***a)* Introduction and overview**

The Group has exposure to the following risks from its use of financial instruments:

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

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

4 Financial Risk Management ***(continued)***

a) **Introduction and overview** ***(continued)***

Risk management framework

The Board of Directors (the Board or board or BOD) has overall responsibility for the establishment and oversight of the Group's risk management framework. The previously established committees viz a Board level executive committee, Asset and Liability Committee (ALCO) and an Audit Committee to establish the base for risk management have been expanded by recognising the need to evolve and to meet the structural changes in the banking industry and paying heed to the regulations.It results into formation of a Steering Committee (comprising of senior management), Management Credit Committee and independent Risk Management Department, AML & Compliance Department. The AML & Compliance is operated under the General Manager to ensure AML compliances meet the international standards and Bank's reputation is protected. Committees are streamlined and restructured to mirror the changes in governance to cope with rapid changes in the markets.

• Newer concepts and approaches and Basel II Frameworks are being introduced in phases and accordingly policies are being revised as a constant sustainable activity. Control is maintained by assigning distinct responsibilities to members of the senior management under Risk Management Matrix.

• Instead of a 'bolt on' to existing process, Bank continues to re-examine the entire process, inherent risk factors and controls and consider opportunities by rationalizing regulatory risk management initiatives. Experiencing from the crisis, and to deliver value beyond mere adherence, one part of this framework is Internal Capital Assessment and Adequacy Process (ICAAP), to assess capital to cover risks not covered under Pillar 1. This ICAAP exercise has demonstrated that the Bank has sufficient capital buffers to cushion any extreme circumstances or scenarios and has adequate Risk Bearing Capacity at 99.9% confidence level.

• Given the operating environments, Bank's size and the products, resource constraints, Bank is adopting a "vanilla compliance" approach i.e. one that have 'mine for value'. In other words the focus and intensity of efforts will be proportionate to the strategic impact and business value. Bank is also mindful that fragmented and labour intensive compliance activities put a drain on ongoing costs, resources and efficiencies of core business operations. Therefore risk management activities are being managed in a calculated manner, but conforming to regulatory requirements and international best practices desirable under Basel II and Basel III mandates.

• Under the purview of the Risk Management Department, Bank is making steady progress in its initiatives to embrace an enterprise risk management (ERM) framework to enable the business and functional units manage all risks in a pro-active manner while integrating concepts of strategic planning, operational risk management, internal controls, and compliances. These include methods and processes, encompassing all risk dimensions to seize the opportunities related to the achievement of the Bank's objectives.

4 Financial Risk Management *(continued)*

a)* Introduction and overview *(continued)

• Risk Management Department has formulated Credit Risk policies in consultation with various departments under CRMD, including collateral management policies, credit assessment, risk grading and reporting, risk rating, compliance with regulatory and statutory requirements and recommending the credit policies for Board approval.

• Frameworks for translating policies defining "risk appetite" and "risk tolerance" levels to measurement techniques are being developed linking them to appropriate risk limits, controls, capital planning management (CPM) frameworks. Through CPM Bank's aim is to maximize stakeholder value, strategic planning, risk based pricing, risk adjusted performance measurement in addition to fulfilling regulatory requirements. Reviewing of risk management policies and systems is a regular activity to reflect changes in market conditions, products and services offered by the Bank in order to present a comprehensive view of risk from a strategic and operational perspective and have a process to address risk proactively and promote capturing of opportunities.

***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, and arises principally from the Group's loans and advances to customers, other banks and investment debt securities. For risk management reporting purposes the Bank considers and consolidates elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently under the directives from the Board by a committee, but reported as a component of market risk exposure, with an exception of stress testing scenario which forms part of credit risk.

Management of credit risk

The Board of Directors has delegated some of the responsibilities of the management of credit risk to its Executive Committee (EC), Credit Committee and Management Credit Committee. A separate and centralised credit risk management division ("CRMD") is responsible for oversight of the Bank's credit risk, which constitutes of Credit Processing Unit (CPU), Credit Facility Assessment Authority (CFAA) and Credit Control and Remedial (CCAR) including :

• *Establishing the authorisation structure* for the approval and renewal of credit facilities. The Board has delegated limited approval authorities (discretionary limits) to the credit committees. Changes to discretionary limits are subject to Board approval. Similarly, facilities in excess of discretionary limits are approved by the EC or the Board of Directors.

• *Reviewing and assessing credit risk* in accordance with authorisation structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

• *Developing and maintaining the Bank's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus on management of the attendant risks. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigants. In preparation for the implementation of the IRB (internal rating based) approaches and building a strong database, bank has introduced online processing of credit applications, rating of all counterparties and is in the process of developing a risk sensitive framework with an objective of levying risk premiums.

• *Reviewing compliance* on an ongoing basis with agreed exposure limits relating to counterparties, industries and countries. Regular reports are provided to the management, executive committee and the Board of Directors on the quality of portfolios and appropriate corrective action is initiated.

• *Limiting concentrations of credit exposure* to counterparties and industries (for loans and advances) by establishing exposure caps and monitoring sectoral exposures. Preferred sectors are identified regularly in line with market dynamics. Accordingly marketing initiatives are directed either to expand or efforts are focused for reduction to balance risk / reward trade offs.

• *Settlement limits and usage of a 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.

• *Providing advice, guidance and specialist skills* to business units to promote best practices throughout the Bank in the management of credit risk.

• For Financial Institutions the Bank uses external rating such as Standard and Poor's and Capital Intelligence or other recognised credit rating agencies in order to manage its credit risk exposure.

• Regular audit of business units and Group credit processes are undertaken by internal audit.

4 Financial risk management ***(continued)***

b) **Credit Risk** ***(continued)***

Exposure to credit risk

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

	Loans and advances		Due from banks		Debt securities	
	2012	2011	**2012**	2011	**2012**	2011
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Carrying amount, net	**8,141,354**	7,848,579	**1,400,656**	773,356	**618,923**	345,220
Individually impaired*						
Substandard	**268,467**	71,202	-	-	-	-
Doubtful	**144,220**	141,959	-	-	-	-
Legal and loss	**198,111**	180,112	-	-	-	-
Gross amount	**610,798**	393,273	-	-	-	-
Interest suspended	**(38,813)**	(34,073)	-	-	-	-
Specific allowance for impairment	**(479,431)**	(355,812)	-	-	-	-
Carrying Amount	**92,554**	3,388	-	-	-	-
Past due but not impaired (overdue by more than 90 days)*	**163,998**	112,637	-	-	-	-
	163,998	112,637	-	-	-	-
Neither past due nor impaired						
Standard	**7,837,455**	7,698,647	**1,400,656**	773,356	**618,923**	345,220
Accounts with renegotiated terms	**120,796**	83,857	-	-	-	-
	7,958,251	7,782,504	**1,400,656**	773,356	**618,923**	345,220
Total non-impaired portfolio	**8,122,249**	7,895,141	**1,400,656**	773,356	**618,923**	345,220
Collective allowance for impairment	**(73,449)**	(49,950)	-	-	-	-
Carrying amount	**8,048,800**	7,845,191	**1,400,656**	773,356	**618,923**	345,220
Carrying amount	**8,141,354**	7,848,579	**1,400,656**	773,356	**618,923**	345,220

* The Group has a defined policy for delinquency, monitoring and controlling such delinquent accounts, in line with Central Bank and Basel II guidelines.

Impaired loans and advances

Impaired loans and advances are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are classified as substandard, doubtful, legal and loss, as appropriate, which is in accordance with the guidelines issued by the UAE Central Bank.

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

Past due but not impaired loans

These are loans and advances where contractual interest or principal payments are past due but the Group believes that impairment is inappropriate on the basis of a genuine repayment source and/or delays in receiving assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to a deterioration in the borrower's financial position and where the Group has made some concessions such as initial maturity is lengthened but there is no loss in terms of interest or principal. Once the loan is restructured it remains in this category for a minimum period of one year during which time repayment should be regular in order to transfer to standard portfolio.

Allowances for impairment

The Group establishes allowance for impairment losses that represents its estimate for incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates 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 that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Write-off policy

The Group writes off loans/securities (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and there is no scope to pursue any other avenues.

However, in the event there are future chances for recovery where the Group believes there are merits in keeping the account open, the debit is written down with a nominal balance of AED 10 to keep the account open for tracking purposes.

Collateral and other credit enhancements

The Group holds collateral against loans and advances to customers in the form of cash margins, pledges/ liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Group accepts guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporates and high net worth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are updated during annual reviews. Generally, collateral is not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Group's policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below.

		2012 AED'000	2011 AED'000
Against neither past due nor impaired			
Cash		2,224,934	1,535,337
Commercial and industrial property		1,732,673	1,707,610
Residential property		1,517	1,757
Equities		146,925	111,148
Other		962,295	889,295
	1	5,068,344	4,245,147
Against past due but not impaired			
Cash		28,632	22,313
Commercial and industrial property		38,260	25,729
Equities		-	223
Other		3,890	5,149
	2	70,782	53,414
Against impaired			
Cash		5,173	5,746
Commercial and industrial property		7,200	7,200
Equities		1,327	1,498
Other		1,939	2,820
	3	15,639	17,264
Total collateral held	1+2+3	5,154,765	4,315,825

Collateral values reflect the maximum exposure or the value of the collateral whichever is lower. Actual pledged values in most cases are higher.

4 **Financial risk management** ***(continued)***

b) **Credit Risk** ***(continued)***

Concentration of Credit Risk

The Group monitors internally concentration of credit risk by sector and geographical location. An analysis of concentrations of credit risk as defined by the Group's internal approved guidelines at the reporting date is shown below (all figures in AED'000):

	Loans and advances		**Due from banks**		**Debt securities**	
	2012	2011	**2012**	2011	**2012**	2011
Carrying value, net	**8,141,354**	7,848,579	**1,400,656**	773,356	**618,923**	345,220
Concentration by sector:						
Sovereign	**1,579,506**	1,771,416	-	-	**242,443**	230,702
Construction	**1,427,374**	1,104,346	-	-	-	-
Trade	**1,182,585**	1,196,975	-	-	-	-
Real estate and real estate trading	**748,586**	797,175	-	-	**70,023**	70,022
Manufacturing	**834,701**	728,188	-	-	-	-
Services	**1,110,958**	936,703	-	-	-	-
Investments	**629,667**	901,050	-	-	-	-
Banks and financial institutions	**196,605**	274,410	**1,400,656**	773,356	**299,149**	44,496
Transport and communication	**160,558**	140,451	-	-	-	-
Retail	**80,155**	82,761	-	-	-	-
Agriculture	-	-	-	-	-	-
Others	**782,352**	354,939	-	-	**7,308**	-
Gross total	**8,733,047**	8,288,414	**1,400,656**	773,356	**618,923**	345,220
Concentration by location:						
United Arab Emirates	**8,730,310**	8,285,159	**1,311,277**	677,732	**618,923**	345,220
Other G.C.C.	**1,400**	1,289	**19,852**	14,573	-	-
Other Arab countries	**1,337**	1,966	**8,856**	8,493	-	-
Western Europe	-	-	**60,671**	72,558	-	-
Australia	-	-	-		-	-
Gross total	**8,733,047**	8,288,414	**1,400,656**	773,356	**618,923**	345,220

4 **Financial risk management** ***(continued)***

b) **Credit Risk** *(continued)*

In accordance with the disclosure requirement of BASEL II Pillar 3 concentration of credit risk by industry segment and currency are as follows. (All figures in AED'000):

Gross credit exposure by industry segment
(as defined by the Central Bank of the UAE)

	Loans and advances		Debt Securities		Total	
	2012	2011	**2012**	2011	**2012**	2011
Industry Segment						
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining and Quarrying	**141,618**	148,221	-	-	**141,618**	148,221
Manufacturing	**834,701**	733,805	-	-	**834,701**	733,805
Electricity and Water	**360**	11			**360**	11
Construction	**2,016,786**	1,740,641	**70,023**	70,022	**2,086,809**	1,810,663
Trade	**1,189,749**	1,200,771	-	-	**1,189,749**	1,200,771
Transport, Storage and Communication	**160,558**	140,451	-	-	**160,558**	140,451
Financial Institutions	**196,605**	274,410	**299,149**	44,496	**495,754**	318,906
Services	**1,113,938**	940,442	-	-	**1,113,938**	940,442
Government	**1,579,506**	1,771,416	**242,443**	230,702	**1,821,949**	2,002,118
Retail/ Consumer banking	**80,443**	82,976	-	-	**80,443**	82,976
All others	**1,418,783**	1,255,270	**7,308**	-	**1,426,091**	1,255,270
Total	**8,733,047**	8,288,414	**618,923**	345,220	**9,351,970**	8,633,634

Gross credit exposure by currency

	Loans and advances		Debt Securities		Total	
	2012	2011	**2012**	2011	**2012**	2011
Foreign currency	**433,521**	371,767	**336,374**	73,460	**769,895**	445,227
AED	**8,299,526**	7,916,647	**282,549**	271,760	**8,582,075**	8,188,407
Total	**8,733,047**	8,288,414	**618,923**	345,220	**9,351,970**	8,633,634

4 **Financial risk management** ***(continued)***

b) **Credit Risk** ***(continued)***

Impaired loans and advances by industry segment and geographical location at 31 December 2012, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues		Provisions	Adjustments	Adjustments	Total impaired assets
	90 days and above	Total	Specific	Write - offs	Write - backs	
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining and	5,056	5,056	4,803	-	-	253
Manufacturing	41,937	41,937	37,578	457	778	4,359
Electricity and Water	-	-	-	-	-	-
Construction	248,066	248,066	248,066	-	5,540	-
Trade	94,495	94,495	94,495	193	801	-
Transport, Storage and Communication	27,137	27,137	27,137	-	155	-
Financial Institutions	91,825	91,825	12,804	-	-	79,021
Services	10,808	10,808	10,808	-	-	-
Government	-	-	-	-	-	-
Retail/ Consumer banking	9,859	9,859	9,778	-	4,761	81
All others	81,615	81,615	72,775	471	-	8,840
Total	610,798	610,798	518,244	1,121	12,035	92,554
Concentration by Geography						
United Arab Emirates	609,461	609,461	517,117	1,121	12,035	92,344
Non UAE	1,337	1,337	1,127	-	-	210
Total	610,798	610,798	518,244	1,121	12,035	92,554

Impaired loans and advances by industry segment and geographical location at 31 December 2011, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues		Provisions	Adjustments		Total impaired assets
	90 days and above	Total	Specific	Write - offs	Write - backs	
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining and	5,036	5,036	4,791	-	-	245
Manufacturing	41,774	41,774	39,650	52,007	271	2,124
Electricity and Water	-	-	-	-	-	-
Construction	225,450	225,450	225,450	125,239	10,155	-
Trade	74,615	74,615	74,615	1,824	570	-
Transport, Storage and Communication	19,399	19,399	18,380	235	284	1,019
Financial Institutions	-	-	-	-	-	-
Services	1,580	1,580	1,580	9,383	4,605	-
Government	-	-	-	-	-	-
Retail/ Consumer banking	11,169	11,169	11,169	1,377	153	-
All others	14,250	14,250	14,250	-	3,095	-
Total	393,273	393,273	389,885	190,065	19,133	3,388
Concentration by Geography:						
United Arab Emirates	391,984	391,984	388,816	190,065	19,133	3,168
Non UAE	1,289	1,289	1,069	-	-	220
Total	393,273	393,273	389,885	190,065	19,133	3,388

4 **Financial risk management** ***(continued)***

b) **Credit Risk** ***(continued)***

At reporting date the Group do not have any impaired loans overdues less than 90 days. At 31 December 2012 the collective impairment provision is AED 73.4 million (2011: AED 49.9 million).

Analysis of the Bank's exposure at 31 December 2012 based on BASEL II standardised approach is as follows (all figures in AED 000):

	On balance sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
Asset classes	Gross outstanding	Net exposure after credit conversion factor	Exposure before CRM	CRM	After CRM	
Claims on sovereign	1,557,446	160	1,557,606	-	1,557,606	-
Claims on (PSEs)	632,223	122	632,345	-	632,345	-
Claims on banks	1,687,840	50,342	1,738,182	-	1,738,182	459,099
Claims on securities firm	-	-	-	-	-	-
Claims on corporates	6,211,645	2,794,716	8,907,988	2,106,615	6,801,373	6,945,328
Claims included in retail portfolio	42,065	1,235	43,300	2,192	41,108	30,831
Claims secured by residential property	1,885	-	1,885	-	1,885	660
Claims secured by commercial real estate	200,457	-	200,457	10,315	190,142	190,142
Past due loans	774,796	19,994	378,289	30,090	348,199	482,458
High risk categories	179,296	-	178,542	-	178,542	267,813
Other assets	356,057	-	353,600	-	353,600	288,916
Total	11,643,710	2,866,569	13,992,194	2,149,212	11,842,982	8,665,247

Analysis of the Bank's exposure at 31 December 2011 based on BASEL II standardised approach is as follows (all figures in AED 000):

	On balance sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
Asset classes	Gross outstanding	Net exposure after credit conversion factor	Exposure before CRM	CRM	After CRM	
Claims on sovereign	1,350,273	193	1,350,466	-	1,350,466	-
Claims on (PSEs)	1,203,722	13,217	1,216,939	-	1,216,939	-
Claims on banks	746,503	73,232	819,735	-	819,735	255,423
Claims on securities firm	47,045	-	47,045	35,095	11,950	12,045
Claims on corporates	5,819,479	2,789,029	8,510,756	1,769,224	6,741,532	6,888,568
Claims included in retail portfolio	43,555	904	44,459	1,902	42,557	31,920
Claims secured by residential property	1,757	-	1,757	-	1,757	615
Claims secured by commercial real estate	237,330	-	237,330	12,823	224,507	224,507
Past due loans	437,832	23,527	178,173	24,329	153,844	216,018
High risk categories	141,561	-	140,807	-	140,807	211,211
Other assets	344,262	-	340,561	-	340,561	225,035
Total	10,373,319	2,900,102	12,888,028	1,843,373	11,044,655	8,065,342

4 **Financial risk management** ***(continued)***

b) **Credit Risk** ***(continued)***

Summary of exposure and credit risk mitigation at reporting date (all figures in AED 000):

	Exposure		Risk Weighted Assets	
	2012	2011	**2012**	2011
Gross exposure prior to credit risk mitigation	**13,992,194**	12,888,028	**8,838,077**	8,212,384
Less: exposure covered by on balance sheet netting	**-**	-	**-**	-
Less: exposure covered by eligible financial collateral	**1,898,683**	1,563,396	**48,087**	8,952
Less: exposure covered by guarantees	**250,529**	279,977	**124,743**	138,090
Less: exposure covered credit derivatives	**-**	-	**-**	-
Net exposure after credit risk mitigation	**11,842,982**	11,044,655	**8,665,247**	8,065,342

4 **Financial risk management** ***(continued)***

b) **Credit Risk** ***(continued)***

Analysis of the Bank's exposure at 31 December 2012 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

	Gross Credit Exposures				
Asset classes	**Rated**	**Unrated**	**Total**	**Post CRM**	**Risk weighted assets**
Claims on Sovereigns	-	1,557,446	1,557,446	1,557,446	-
Claims on PSE	-	632,223	632,223	632,223	-
Claims on securities firms	-	-	-	-	-
Claims on Banks	1,687,840		1,687,840	1,687,656	434,320
Claims on Corporate	-	6,211,645	6,211,645	4,973,543	4,923,114
Regulatory and other retail exposure	-	42,065	42,065	40,587	30,440
Residential retail exposure	-	1,885	1,885	1,885	660
Commercial Real Estate	-	200,457	200,457	190,142	190,142
Other assets	-	356,057	356,057	353,600	288,916
Total	1,687,840	9,001,778	10,689,618	9,437,082	5,867,592

Analysis of the Bank's exposure at 31 December 2011 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

	Gross Credit Exposures				
Asset classes	**Rated**	**Unrated**	**Total**	**Post CRM**	**Risk weighted assets**
Claims on Sovereigns	-	1,350,273	1,350,273	1,350,273	-
Claims on PSE	-	1,203,722	1,203,722	1,203,722	-
Claims-securities firms	-	47,045	47,045	11,950	12,045
Claims on Banks	746,503		746,503	746,503	219,027
Claims on Corporate	-	5,819,479	5,819,479	4,813,669	4,813,669
Regulatory and other retail exposure	-	43,555	43,555	42,290	31,717
Residential retail exposure	-	1,757	1,757	1,757	615
Commercial Real Estate	-	237,330	237,330	224,507	224,507
Other assets	-	344,262	344,262	340,561	225,035
Total	746,503	9,047,423	9,793,926	8,735,232	5,526,615

The Group continues to carry classified doubtful debts and delinquent accounts on its books even after making allowances for impairment in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement ("IAS 39"). However, interest is accrued on doubtful and legal accounts for litigation purposes only and accordingly interest is not taken to income. Such accruals increase gross loans and advances receivable. Loans and advances are written off only when all legal and other avenues for recovery or settlement are exhausted.

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

The movement during the year in the impairment provision and interest in suspense was as follows:

	Portfolio basis		Specific basis	
	2012	2011	**2012**	2011
	AED'000	AED'000	**AED'000**	AED'000
At 1 January	**49,950**	42,974	**389,885**	465,476
Charge for the year	**23,499**	6,976	**117,826**	106,625
Recoveries during the year	-	-	**(12,035)**	(19,133)
Interest not recognised in the income statement (net)	-	-	**23,689**	26,982
Amounts written off during the year	-	-	**(1,121)**	(190,065)
	73,449	49,950	**518,244**	389,885

During the year, there were recoveries amounting to AED 11.5 million booked in income statement on account of balances previously written off.

***c)* Liquidity Risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk can be segregated into two broad categories :

1) Funding Liquidity Risk is the risk that the Group will encounter difficulty in funding the increases in assets and meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets, without incurring unacceptable losses.

2) Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

Management of liquidity risk

Following the international economic crisis, liquidity risk management has remained at the helm of risk management and is also receiving the close attention of the Board of Directors.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. All liquidity policies and procedures are subject to review and approval by ALCO.

The key elements of the Group's liquidity strategy are as follows :

a) Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities ;

b) Carrying a portfolio of highly liquid assets, diversified by currency and maturity ;

c) Monitoring liquidity ratios, maturity mismatches, behavioral characteristics of the Group's financial assets and liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding; and

d) Carrying out stress testing of the Group's liquidity position.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets (i.e., total assets by maturity against total liabilities by maturity) and its loans to deposit ratio.

Details of the Group's net liquid assets are summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayments and does not take account of the effective maturities as indicated by the Group's deposit retention history. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

4 **Financial risk management *(continued)***

c) **Liquidity Risk (continued)**

Maturities of assets and liabilities

	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 year AED'000	Total AED'000
At 31 December 2012				
Assets				
Cash and deposits with the UAE Central Bank	434,506	-	-	434,506
Loans and advances to banks	1,245,561	155,095	-	1,400,656
Customers' indebtedness for acceptances	307,798	45,251	8,540	361,589
Loans and advances to customers	2,228,217	3,681,163	2,231,974	8,141,354
Investment securities	5,021	450,947	374,800	830,768
Property and equipment	7,063	8,425	50,195	65,683
Other assets	10,715	47,165	117,136	175,016
Total assets	**4,238,881**	**4,388,046**	**2,782,645**	**11,409,572**
Liabilities and equity				
Deposits from other banks	18,813	5,509	-	24,322
Deposits from customers	3,877,827	4,147,018	494,531	8,519,376
Liabilities under acceptances	307,798	45,251	8,540	361,589
Other liabilities	53,670	53,726	50,176	157,572
Equity	188,550	-	2,158,163	2,346,713
Total liabilities and equity	**4,446,658**	**4,251,504**	**2,711,410**	**11,409,572**
At 31 December 2011				
Assets				
Cash and deposits with the UAE Central Bank	612,679	-	-	612,679
Loans and advances to banks	773,356	-	-	773,356
Customers' indebtedness for acceptances	392,449	69,410	12,124	473,983
Loans and advances to customers	2,106,587	3,434,640	2,307,352	7,848,579
Investment securities	518	180,107	345,223	525,848
Property and equipment	6,310	8,425	28,166	42,901
Other assets	11,491	47,165	66,952	125,608
Total assets	**3,903,390**	**3,739,747**	**2,759,817**	**10,402,954**
Liabilities and equity				
Deposits from other banks	112,187	5,509	-	117,696
Deposits from customers	3,888,632	3,230,245	420,599	7,539,476
Liabilities under acceptances	392,449	69,410	12,124	473,983
Other liabilities	24,945	25,296	99,139	149,380
Equity	116,650	-	2,005,769	2,122,419
Total liabilities and equity	**4,534,863**	**3,330,460**	**2,537,631**	**10,402,954**

Maturities of assets and liabilities have been determined on the basis of the outstanding period from the reporting date to the contracted or expected maturity dates.

4 **Financial risk management *(continued)***

c) **Liquidity Risk (continued)**

Residual contractual maturity of financial liabilities

The following table shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flow on these instruments may vary significantly from this analysis, for example demand deposits from customers are expected to maintain a stable or increasing balance.

2012	Carrying amount AED'000	Gross nominal inflow / (outflow) AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative liabilities					
Deposits from banks	24,322	(24,495)	(18,819)	(5,676)	-
Deposits from customers	8,519,376	(8,761,075)	(3,926,109)	(4,270,367)	(564,599)
Liabilities for acceptances	361,589	(361,589)	(307,798)	(45,251)	(8,540)
Other liabilities	157,572	(157,572)	(53,670)	(53,726)	(50,176)
Derivative liabilities					
Trading: outflow	-	-	-	-	-
Trading: inflow	-	-	-	-	-
Total liabilities	**9,062,859**	**(9,304,731)**	**(4,306,396)**	**(4,375,020)**	**(623,315)**

2011	Carrying amount AED'000	Gross nominal inflow / (outflow) AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative liabilities					
Deposits from banks	117,696	(117,907)	(112,188)	(5,719)	-
Deposits from customers	7,539,476	(7,689,908)	(3,941,221)	(3,316,816)	(431,871)
Liabilities for acceptances	473,983	(473,983)	(392,449)	(69,410)	(12,124)
Other liabilities	149,380	(149,380)	(24,945)	(25,296)	(99,139)
Derivative liabilities					
Trading: outflow	-	(1,560)	(1,560)	-	-
Trading: inflow	-	-	-	-	-
Total liabilities	**8,280,535**	**(8,432,738)**	**(4,472,363)**	**(3,417,241)**	**(543,134)**

d) **Market Risk**

Market Risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates and credit spreads (not relating to change in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

4 Financial risk management *(continued)*

d)* Market Risk *(continued)

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

Assets and liabilities repricing profile

	Effective Interest rate %	Less than 3 months	3 months to 1 year	1 to 5 year	Non-interest bearing	Total
		AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and deposits with the UAE Central Bank	-	-	-	-	434,506	434,506
Loans and advances to banks	0.28	1,245,527	155,095	-	34	1,400,656
Customers' indebtedness for acceptances		-	-	-	361,589	361,589
Loans and advances to customers	7.66	2,228,217	3,681,163	2,231,974	-	8,141,354
Investment securities	2.29	-	244,123	374,800	211,845	830,768
Property and equipment	-	-	-	-	65,683	65,683
Other assets	-	-	-	-	175,016	175,016
Total assets		**3,473,744**	**4,080,381**	**2,606,774**	**1,248,673**	**11,409,572**
Liabilities and equity						
Deposits from banks	0.97	18,813	5,509	-	-	24,322
Liabilities under acceptances		-	-	-	361,589	361,589
Deposits from customers	2.63	2,136,222	4,147,018	494,531	1,741,605	8,519,376
Other liabilities	-	-	-	-	157,572	157,572
Equity	-	-	-	-	2,346,713	2,346,713
Total liabilities and equity		**2,155,035**	**4,152,527**	**494,531**	**4,607,479**	**11,409,572**
Interest rate sensitivity gap		**1,318,709**	**(72,146)**	**2,112,243**	**(3,358,806)**	-
Cumulative interest rate sensitivity gap: As of 31 December 2012		**1,318,709**	**1,246,563**	**3,358,806**		
As of 31 December 2011		964,120	1,163,006	3,392,344		

4 Financial risk management *(continued)*

d)* Market Risk *(continued)

The assets and liabilities repricing profile has been determined on the basis of the final maturity period or interest repricing periods at the reporting date, whichever is earlier.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Sensitivity analysis - Interest rate risk

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 related income. The Group manages the risk principally through monitoring interest rate gaps and matching the re-pricing profile of assets and liabilities. The Group also assesses the impact of defined movement in interest yield curves on its net interest income. The following is the impact of interest rate movement on net interest income and regulatory capital.

Shift in yield curve	**2012**	2011
	AED '000	AED '000
+200 b.p.	**62,509**	61,056
-200 b.p.	**(62,509)**	(61,056)

A substantial portion of the Group's assets and liabilities are re-priced within 1-year. Accordingly there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 10,382 million of monthly average interest bearing assets and AED 7,257 million of monthly average interest bearing liabilities (31 Dec 2011: AED 8,954 million average interest bearing assets and AED 5,901 million average interest bearing liabilities.) The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

Equity price risk

Equity price risk arises from investments in fair value through profit or loss and FVTOCI equity securities. The management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the management. The Group manages this risk through diversification of investments in terms of industry distribution.

The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy, certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

Sensitivity analysis - equity price risk

Most of the Group's equity investments are listed either on the Dubai Financial Market or the Abu Dhabi Securities Market. For such investments classified as fair value through other comprehensive income, a 5% increase in the two markets at the reporting date would have increased equity by AED 5.51 million (31 December 2011: AED 4.44 million) and an equal change in the opposite direction would have decreased equity by a similar amount. For investments classified as fair value through profit or loss, the impact on the income statement would have been an increase or decrease of AED 0.25 million (31 December 2011: AED 0.02 million).

4 Financial risk management *(continued)*

d)* Market Risk *(continued)

Foreign currency risk

Invest bank engages in limited trading in foreign exchange on its own account. Its treasury activity is mainly directed to assisting its customers in managing their foreign exchange exposures. A system of exposure limits is in place to control price risk on foreign exchange exposures and a system of individual credit limits is in place to control counter-party risk. The amount mentioned in the table below reflects the equal but opposite potential effect on income statement and equity based on a 1% negative or positive currency fluctuation, with all other variables held constant.

At the reporting date, the Group has the following net open currency exposures in respect of un-pegged currencies:

	2012 - AED '000			2011 - AED '000		
	Total	**Impact on income statement**	**Impact on equity**	Total	Impact on income statement	Impact on equity
British Pound	**608**	**6**	**-**	-	-	-
Euro	**1,362**	**14**	**-**	1,824	18	-
Lebanese Pound	**90,350**	**-**	**904**	91,309	-	913

***e)* Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

Operational risks emanate from every segment of Group's operation and are faced by all the business units.

The Group has taken measures to put in place tools, firstly to identify all such operational risks. The Group has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Group's reputation.

For this purpose the Group has hired a consulting firm that specialises in providing expertise in managing all risks, contracted to put in place a dedicated software which is currently under testing. Implementation of Standardised approach will be carried out in phases, following data collection of the identified Key risk indicators (KRI's), Key performance indicators (KPI's) and Risk control and self assessment (RCSA).

In addition to the reviews by internal audit, the compliance with policies and procedures is strengthened by reviews of compliance and operational risk manager.

In order to ensure a structured and focused Operational risk management ("ORM") process, the Group has also formed an ORM committee whose mandate is to oversee ORM process, consider each operational risk in order of "Priority by significance", to develop policies, processes and procedures for managing operational risk in all of the Group's material products, activities, processes and systems as well as recommend best way to integrate the ORM in the overall organisation wide risk management process.

4 Financial risk management *(continued)*

***f)* Capital risk management and Basel II requirements**

Capital allocation

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

The Group's objective when managing capital are as follows.

- Safeguarding the Group's ability to continue as a going concern and increase return for shareholders; and
- Comply with regulatory capital set by Central Bank of 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 recognises 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 Bank 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 Bank is in the process of introducing the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis to reflect the risk substituting framework for the loan assets. RAROC calculations are being built into the implemented Credit Appraisal System.

The Bank's regulatory capital adequacy ratio is set by the Central bank of UAE ('the Central Bank'). The Bank has determined its regulatory capital as recommended by the New Basel II Capital Accord, in line with the guidelines of the UAE Central Bank with effect from 2007. The Bank has adopted a standardised approach for credit risk and market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB by 2014 and 2018 respectively. The Bank have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year. The Central Bank has advised that the capital adequacy ratio should be 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8%.

The Bank's regulatory capital is analysed 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 unrealised gains / losses on investments classified as FVTOCI and derivatives held as cash flow hedges, general 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 provision shall not exceed 1.25% of total risk weighted assets.

4 Financial risk management ***(continued)***

f) **Capital risk management and Basel II requirements** ***(continued)***

The Bank's regulatory capital position at 31 December was as follows:

TIER 1 CAPITAL	2012 AED '000	2011 AED '000
Share capital	1,250,000	1,155,000
Legal reserves	329,480	297,009
Special reserves	329,480	297,009
Retained earnings	254,210	211,456
Total tier 1 capital	2,163,170	1,960,474
TIER 2 CAPITAL		
Asset revaluation reserves	(76,229)	(91,892)
General provisions/general loan loss reserves	73,449	49,950
Subordinated debt	323,044	403,805
Total tier 2 capital	320,264	361,863
Total regulatory capital (Sum of tier 1 and 2 capital)	2,483,434	2,322,337
RISK WEIGHTED ASSETS		
Credit risk	8,665,247	8,065,341
Market risk	94,664	86,846
Operational risk	656,579	627,397
Total risk weighted assets (RWA)	9,416,490	8,779,584
Total regulatory capital expressed as % of RWA	26.37%	26.45%
Total tier 1 capital expressed as % of RWA	22.97%	22.33%

Tier-2 Capital at 31 December 2012 as shown above includes subordinated debt from The Ministry of Finance of the U.A.E. amounting to AED 323 million (2011 : 403.8 million) (refer note 14).

4 Financial risk management *(continued)*

f)* Capital risk management and Basel II requirements *(continued)

Total capital requirement for market risk under standardised approach as per BASEL II Pillar 3 is as follows:

	2012 - AED '000		2011 - AED '000	
	Capital required	Risk weighted assets	Capital required	Risk weighted assets
Interest rate risk	-	-	-	-
Equity position risk	803	6,692	83	691
Foreign exchange risk	10,561	87,972	10,343	86,155
Commodity risk	-	-	-	-
Total capital requirement	11,364	94,664	10,426	86,846

5 Classes and categories of financial instruments

Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values.

At 31 December 2012	**FVTPL**	**FVTOCI**	**Others at amortised cost**
	AED '000	**AED '000**	**AED '000**
Financial assets			
Cash and deposits with the UAE Central Bank	-	-	434,506
Loans and advances to banks	-	-	1,400,656
Loans and advances to customers	-	-	8,141,354
Trading securities -Quoted equities	5,021	-	-
Investment in equities	-	206,824	-
Sukuk / Bonds	-	-	618,923
Interest receivable	-	-	49,050
	5,021	**206,824**	**10,644,489**
Financial liabilities			
Deposits from customers	-	-	8,519,376
Deposits from other banks	-	-	24,322
Interest payable	-	-	78,972
	-	-	**8,622,670**

At 31 December 2011	FVTPL	FVTOCI	Others at amortised cost
Financial assets			
Cash and deposits with the UAE Central Bank	-	-	612,679
Loans and advances to banks	-	-	773,356
Loans and advances to customers	-	-	7,848,579
Trading securities -Quoted equities	518	-	-
Investment in equities	-	180,110	-
Sukuk / Bonds	-	-	345,220
Interest receivable	-	-	37,761
	518	180,110	9,617,595
Financial liabilities			
Deposits from customers	-	-	7,539,476
Deposits from other banks	-	-	117,696
Interest payable	-	-	77,204
	-	-	7,734,376

Management believes that the fair values of financial assets and liabilities measured at amortized cost are not significantly different from their carrying values in these financial statements.

6 Use of estimates and judgments

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies are as follows.

(a) Impairment losses on financial instruments carried at amortised cost

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently approved by credit risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolio of loans and advances and investment securities measured at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items can not yet be identified. In assessing the need for collective loss allowances, management considers factor such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimate of the future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(b) Fair value of derivatives and unquoted securities

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values, these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however area such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

7 Segmental analysis

The Group operates in one geographic area, the United Arab Emirates, and its results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

	Dec-12			Dec-11		
	Commercial Banking AED'000	Treasury and Investments AED'000	Total AED'000	Commercial Banking AED'000	Treasury and Investments AED'000	Total AED'000
Year ended						
Net interest and other income	507,717	58,092	565,809	467,605	58,005	525,610
Net impairment losses	(116,107)	(1,608)	(117,715)	(83,868)	(10,600)	(94,468)
Net profit for the year	271,587	53,127	324,714	273,227	44,070	317,297
Segment capital expenditure	23,696	-	23,696	7,058	-	7,058
Segment depreciation	6,022	-	6,022	5,613	-	5,613
At 31 December						
Segment total assets	8,752,742	2,656,830	11,409,572	8,864,482	1,538,472	10,402,954
Segment total liabilities	9,047,456	15,403	9,062,859	8,223,640	56,895	8,280,535

8 Cash and deposits with the UAE Central Bank

	2012 AED'000	2011 AED'000
Cash in hand	64,270	58,489
Deposits in current a/c with the UAE Central Bank (CB)	80,835	134,468
Placements in certificates of deposits with CB	-	150,000
Statutory reserve deposits with CB	289,401	269,722
	434,506	612,679

Statutory reserve deposits are required to be maintained as per regulations of the UAE Central Bank. These deposits are not available for the Group's day-to-day operations and are non-interest bearing.

9 Loans and advances to banks

	2012 AED'000	2011 AED'000
Money market placements	**1,284,790**	580,000
Items in course of collection	**115,866**	193,536
	1,400,656	773,536

10 Investment securities

	2012 AED'000	2011 AED'000
Financial assets at fair value through profit or loss (FVTPL) - quoted equities	**5,021**	518
Financial assets at fair value through other comprehensive (FVTOCI) income - equities	**206,824**	180,110
Financial assets at amortised cost - bonds/sukuk	**618,923**	345,220
	830,768	525,848

FVTOCI equities include an unquoted equity investments held as strategic investments in First National Bank, Lebanon ("FNB") of AED 90.3 million (2011: AED 91.3 million), which represents 15.5972% (2011:15.57%) interest in FNB. During the period the Bank subscribed to right issue declared by FNB. As a result of this right issue the Bank increased its investment by AED 8.8 million. At 31 December 2012, the fair value of this investment is determined using comparable market value approach (2011: comparable market value approach), resulting in fair value loss of AED 9.8 million (2011: AED 25.9 million) recognised in other comprehensive income.

All FVTOCI equities are quoted other then investment in FNB as stated above.

Revaluation reserve

At 31 December 2012, the negative revaluation reserve of AED 76.2 million (2011: negative revaluation reserve of AED 91.8 million) includes net fair value gain of AED 15.5 million (2011: net fair value loss of AED 54 million) on FVTOCI equity securities which are recognised in other comprehensive income.

Net gains/(losses) from investment securities

Net gains/(losses) from investment securities have the following components for the year ended 31 December:

	2012 AED'000	2011 AED'000
Realised gains / losses on sale of financial assets at fair value through profit or loss	**724**	-
Fair value adjustment for financial assets at fair value through profit or loss	**(225)**	(687)
	499	(687)

10 Investment securities *(continued)*

Fair Value Hierarchy

The table below analyses financial instruments, measured at fair value at the end of reporting period, by level into fair value hierarchy into which the fair value measurement is categorised:

At 31 December 2012 **Financial assets**	**Level 1**	**Level 2**	**Level 3**	**Total**
FVTPL -Quoted equities	5,021	-	-	5,021
FVTOCI- financial assets	108,015	98,809	-	206,824
	113,036	98,809	-	211,845

At 31 December 2011 **Financial assets**	**Level 1**	**Level 2**	**Level 3**	**Total**
FVTPL -Quoted equities	518	-	-	518
FVTOCI- financial assets	84,975	95,135	-	180,110
	85,493	95,135	-	180,628

11 Property and Equipment

	Land and building AED'000	Office installation and improvements AED'000	Office furniture and equipment AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 1 January 2012	42,215	19,496	40,560	425	-	102.696
Additions	-	6,847	3,430	-	18,527	28,804
Disposals/ transfer	-	-	-	-	-	-
At 31 December 2012	**42,215**	**26,343**	**43,990**	**425**	**18,527**	**131,500**
Accumulated depreciation						
At 1 January 2012	16,548	11,299	31,806	142	-	59,795
Charge for the year	4	4,463	1,413	142	-	6,022
Disposals/ transfer	-	-	-	-	-	-
At 31 December 2012	**16,552**	**15,762**	**33,219**	**284**	-	**65,817**
Net book value at 31 December 2012	**25,663**	**10,581**	**10,771**	**141**	**18,527**	**65,683**
Cost						
At 1 January 2011	42,215	17,287	35,711	760	-	95,973
Additions	-	2,209	4,849	-	-	7,058
Disposals/ transfer	-	-	-	(335)	-	(335)
At 31 December 2011	**42,215**	**19,496**	**40,560**	**425**	-	**102,696**
Accumulated depreciation						
At 1 January 2011	16,544	9,692	27,946	335	-	54,517
Charge for the year	4	1,607	3,860	142	-	5,613
Disposals/ transfer	-	-	-	(335)	-	(335)
At 31 December 2011	**16,548**	**11,299**	**31,806**	**142**	-	**59,795**
Net book value at 31 December 2011	**25,667**	**8,197**	**8,754**	**283**	-	**42,901**

12 Other assets

	2012 AED'000	2011 AED'000
Interest receivable	**49,050**	37,761
Investment properties	**28,190**	25,550
Prepayments and other assets	**97,776**	62,297
	175,016	125,608

In prior periods, the Group had acquired two properties in settlement of debt. These properties are classified as investment properties. The management adopted a fair value model and revalued these properties to their estimated fair value based on a professional valuation performed by an independent real estate valuers. The change in fair value was recorded in other operating income.

13 Deposits from other banks

	2012 AED'000	2011 AED'000
Placements with the Banks	**5,509**	23,874
Items in course of settlement	**12,207**	78,860
Demand deposits	**6,606**	14,962
	24,322	117,696

14 Deposits from customers

	2012 AED'000	2011 AED'000
Time deposits	**6,665,271**	5,613,122
Savings accounts	**112,500**	106,759
Current and other accounts	**1,741,605**	1,819,595
	8,519,376	7,539,476

Customer deposits by geographical area are as follows:

	2012 AED'000	2011 AED'000
Within the UAE	**8,483,227**	7,505,194
Others	**36,149**	34,282
	8,519,376	7,539,476

Time deposits include deposits of AED 404 million (2011: AED 404 million) received from the Ministry of Finance, United Arab Emirates. On 25 March 2009, the Shareholders resolved to convert these deposits into subordinated debt authorising the Board of Director to undertake necessary action to execute the agreement with the Ministry of Finance. On 30 December 2009, the Board of Directors resolved approving the term of the agreement for conversion of the above deposits and the signed agreement dated 31 December 2009 (re-categorization date) was submitted by the Group to the Ministry of Finance. As per the terms of the agreement these deposits can now be treated as subordinated to equity as lower Tier 2 capital in accordance with the conditions as set out in the agreement. The subordinated debt carries interest at 4% for the first two years, 4.5% and 5% for third and fourth years respectively and 5.25% thereafter, until the maturity of loan in December 2016.

15 Other liabilities

	2012 AED'000	2011 AED'000
Interest payable	**78,972**	77,204
Unearned commission income	**27,572**	22,435
Staff benefits payable	**13,721**	14,250
Accrued expenses	**10,438**	11,231
Managers' cheques	**5,334**	4,750
Others	**21,535**	19,510
	157,572	149,380

16 Capital and Reserves

At 31 December 2012, the Group's authorised, issued and fully paid share capital was AED 1,250 million comprising 1,250 million shares of AED 1 each (at 31 December 2011: AED 1,155 million comprising 1,155 million shares of AED 1 each).

Proposed dividend

The Board of Directors has proposed to the shareholders a cash dividend of AED 187.5 million for 2012 (2011 : AED 115.5 million) being 15% of the paid up share capital (2011: 10%) and a bonus dividend of AED 62.5 million (2011 : AED 95 million) being 5% of paid up share capital (2011 : 8.225 %).

Reserves

In accordance with Article 82 of Federal Law No.10 of 1980, a transfer equivalent to 10% of net profit, if any, is made annually to the legal reserve until this reserve equals to 50% of the share capital.

In accordance with the Bank's Articles of Association, as a minimum 10% of net profit is transferred annually to a special reserve which will be used for purposes to be determined by the ordinary general meeting upon a proposal being made by the Board of Directors.

17 Net interest income

	2012	2011
Interest income :	**AED'000**	AED'000
Loans and advances to banks	**5,600**	4,996
Certificates of deposits	**63**	1,220
Performing loans and advances	**611,251**	609,595
Bonds/Sukuk	**15,819**	13,209
	632,733	629,020
Interest expenses :		
Deposits from other banks	**(277)**	(164)
Time deposits	**(202,176)**	(233,023)
Call deposits	**(4,062)**	(2,306)
Savings accounts and others	**(1,554)**	(1,937)
	(208,069)	(237,430)
	424,664	391,590

18 Net fees and commission income

	2012	2011
Fees and commission income :	**AED'000**	AED'000
Letters of credit fee	**23,581**	24,625
Letters of guarantee fee	**56,032**	50,948
Retail and corporate lending fees	**11,609**	11,595
Minimum balance fees	**107**	155
Commission on transfers	**4,449**	4,442
Others	**17,078**	18,041
	112,856	109,806
Fees and commission expenses :		
Service charges	**(329)**	(326)
Others	**(13)**	(27)
	(342)	(353)
	112,514	109,453

19 Other operating income

	2012	2011
	AED'000	AED'000
Fair value gain/(loss) on investment property	**2,640**	(2,480)
Dividends on investment securities	**5,653**	5,267
Other income	**1,300**	1,025
Rental income	**577**	617
	10,170	4,429

20 General and administrative expenses

	2012 AED'000	2011 AED'000
Payroll and related costs	**88,839**	84,450
Occupancy	**10,738**	7,960
Others	**15,898**	12,550
	115,475	104,960

21 Provision for other expenses

	2012 AED'000	2011 AED'000
Depreciation	**6,022**	5,613
Provision for staff terminal benefits	**1,883**	3,272
	7,905	8,885

22 Earnings per share

Basic earnings per share is based on the profit attributable to ordinary shareholders of the Bank and weighted average number of ordinary shares.

	2012	2011
Net profit for the year AED ('000)	**324,714**	317,297
Weighted average number of shares outstanding at 31 December ('000)	**1,250,000**	1,250,000
Basic earnings per share AED	**0.260**	0.254

At reporting date the Group does not have any instrument resulting in dilution of basic earnings per share. Earnings per share as at 31 December 2011 is adjusted for 95 million bonus shares issued during the period.

23 Cash and cash equivalents

Cash and deposits with the UAE Central Bank include certificates of deposit amounting to AED NIL (2011: AED 150 million) with the UAE Central Bank that mature within three months.

	2012 AED'000	2011 AED'000
Cash and deposits with the UAE Central Bank	**434,506**	612,679
Due from other banks	**1,245,561**	773,356
Deposits from other banks	**(18,813)**	(112,187)
	1,661,254	1,273,848

23 Cash and cash equivalents *(continued)*

Cash and deposits with the UAE Central Bank include AED 289.4 million (2011: AED 269.7 million) comprising mandatory reserves with the U.A.E. Central Bank which are not available for use in the Group's day to day operations.

24 Related party transactions

In the normal course of business, the Group enters into various transactions with related parties including key management personnel and their related companies. 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, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties, which in opinion of the management are not significantly different from those that could have been obtained from third parties. The volume of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	Key management personnel 2012 AED'000	**Companies associated with key management personnel 2012 AED'000**	Key management personnel 2011 AED'000	Companies associated with key management personnel 2011 AED'000
Loans				
Loans outstanding at 1 January	**77,836**	**353,016**	79,784	256,387
Loans issued during the year	**28,375**	**66,792**	52,113	149,881
Loan repayments during the year	**(46,691)**	**(51,800)**	(54,061)	(53,252)
Loans outstanding at 31 December	**59,520**	**368,008**	77,836	353,016
Interest income earned during the year	**5,952**	**23,654**	6,479	25,257
Outstanding letters of credit and guarantees at 31 December	**4,498**	**32,036**	4,198	28,179

No provisions have been recognised in respect of loans granted to related parties (2011: Nil).

The loans extended to directors during the year are repayable over 1 year and bear interest at rates ranging from 6.0 % to 11 % per annum (2011: 6.5% to 11.%). At 31 December 2012, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 335.7 million (2011: AED 309.2 million).

	Key management personnel 2012 AED'000	**Companies associated with key management personnel 2012 AED'000**	Key management personnel 2011 AED'000	Companies associated with key management personnel 2011 AED'000
Deposits				
Deposits at 1 January	**242,593**	**804,197**	204,979	649,285
Deposits received during the year	**128,957**	**200,129**	88,155	198,037
Deposits repaid during the year	**(68,476)**	**(46,254)**	(50,541)	(43,125)
Deposits at 31December	**303,074**	**958,072**	242,593	804,197
Interest expense during the year	**5,746**	**20,400**	7,028	21,627

24 Related party transactions *(continued)*

	2012 AED'000	2011 AED'000
Key management compensation		
Salaries and other short term benefits	**11,180**	10,780
Termination benefits	**275**	275
	11,455	11,055

Proposed directors' remuneration

Subsequent to the reporting date, the Board of Directors proposed their remuneration in the amount of AED 1.05 million *(2011: AED 1.05 million)*.

25 Commitments and contingent liabilities

At any time Bank has outstanding commitment to extend credit. These commitment take the form of approved loan facilities. Outstanding loan commitment have committed periods that do not extend beyond the normal underwriting and settlement period.

The Bank provides financial guarantees and letter of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend up to period of one year.

The Bank has capital commitments towards the construction of the new Head office building amounting to AED 25 million.(2011 : Nil)

The contractual amount of commitments and contingent liabilities are set out in the following table by category.

	2012 AED'000	2011 AED'000
Letters of credit	**384,801**	403,845
Letters of guarantee	**4,439,862**	4,210,285
Commitment to extend credit	**1,579,520**	1,275,829
Foreign exchange and forward commitments	**-**	1,560
	6,404,183	5,891,519

Commitment to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considered less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Exposure by geography as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2012	2011	**2012**	2011	**2012**	2011
United Arab Emirates	**1,579,520**	1,275,829	**-**	1,560	**4,100,964**	3,964,892
GCC Excluding UAE	**-**	-	**-**	-	**723,699**	649,238
	1,579,520	1,275,829	**-**	1,560	**4,824,663**	4,614,130

25 Commitments and contingent liabilities *(continued)*

Exposure by currency as on 31 December

	Commitment to extend credit		Foreign exchange and forward		Other Commitments and contingent liabilities	
	2012	2011	**2012**	2011	**2012**	2011
Foreign Currency	-	-	-	1,560	**530,152**	655,107
AED	**1,579,520**	1,275,829	-	(1,560)	**4,294,511**	3,959,023
Total	**1,579,520**	1,275,829	-	-	**4,824,663**	4,614,130

Exposure by industry segment as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2012	2011	**2012**	2011	**2012**	2011
Agriculture, fishing and related	-	-	-	-	**19**	21
Crude Oil, Gas, Mining and	**1,000**	4,492	-	-	**25,452**	23,582
Manufacturing	**151,252**	269,149	-	-	**618,741**	616,507
Electricity and Water	-	42	-	-	-	-
Construction	**313,214**	409,370	-	-	**2,688,121**	2,634,525
Trade	**215,411**	185,818	-	1,560	**947,111**	821,123
Transport, Storage and	**27,250**	7,022	-	-	**64,121**	51,314
Financial Institutions	**40,521**	37,196	-	-	**28,514**	26,261
Services	**296,456**	44,284	-	-	**369,323**	364,967
Government	**57,122**	224	-	-	**14,252**	16,469
Retail/ Consumer banking	**40,129**	50,129	-	-	**3,152**	2,060
All Others	**437,165**	268,103	-	-	**65,857**	57,301
Total	**1,579,520**	1,275,829	-	1,560	**4,824,663**	4,614,130

Exposure by maturity as on 31 December

	Commitment to extend credit		Foreign exchange and forward		Other Commitments and contingent liabilities	
	2012	2011	**2012**	2011	**2012**	2011
Less than 3 months	**679,194**	540,212	-	1,560	**1,592,138**	1,552,123
3 months to one year	**900,326**	735,617	-	-	**3,232,525**	3,062,007
One to five years	-	-	-	-	-	-
Total	**1,579,520**	1,275,829	-	1,560	**4,824,663**	4,614,130

26 Customers indebtedness for acceptances

Customers' indebtedness for acceptances represents the accepted documented liability amount which is recoverable from the respective customers of the Group at the reporting date. **Liabilities under acceptances** represents bills of exchange, letters of credit etc where the Group has accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Group does not have a legal right of set-off.

27 Comparative figures

Certain comparative figures have been reclassified where necessary to conform to current year's presentation.