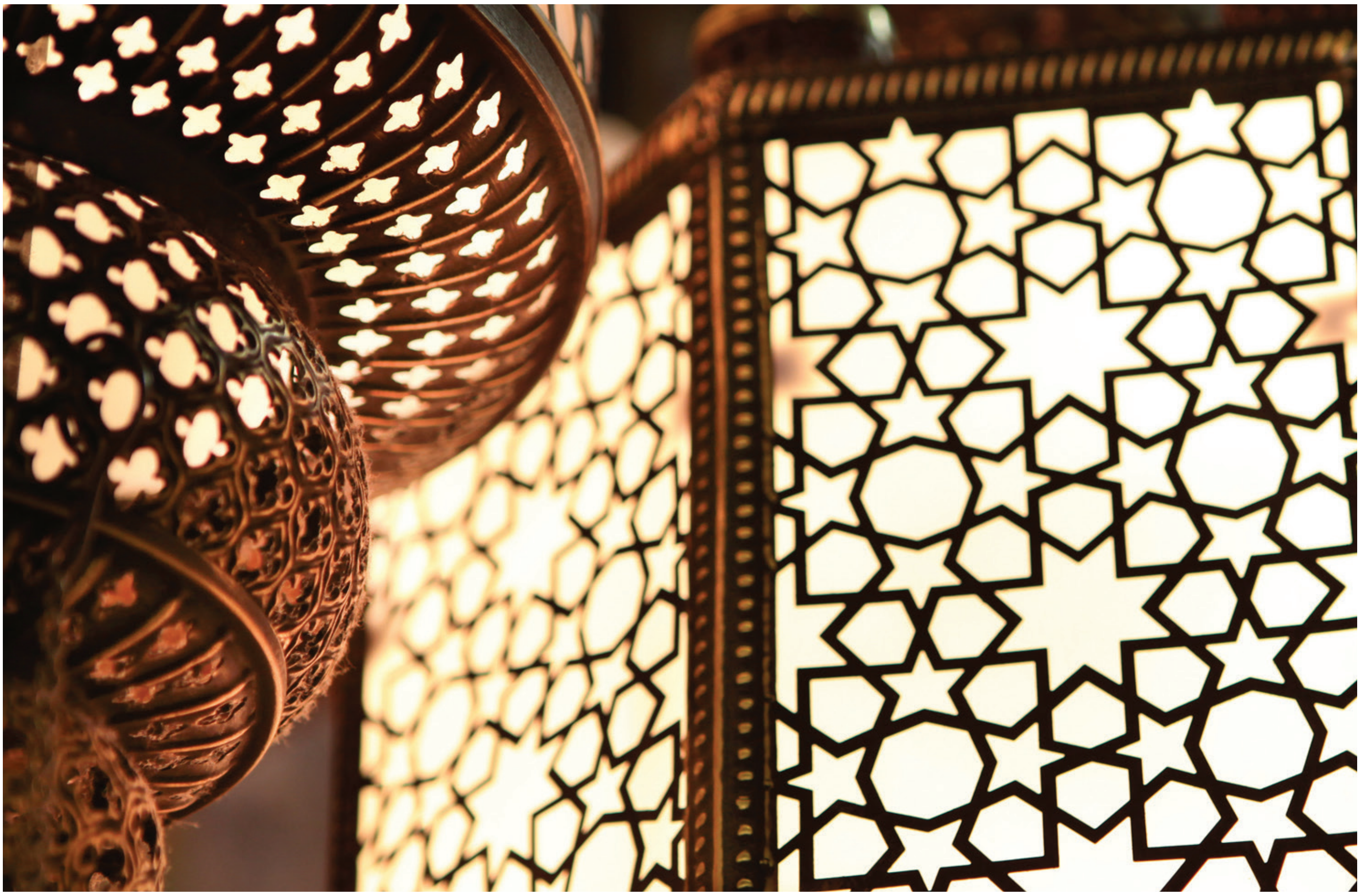
ANNUAL REPORT 2012



مصرف الإمارات الإسلامي

EMIRATES ISLAMIC BANK

In the name of Allah

the most Gracious and Merciful

مصرف الإمارات الإسلامي
EMIRATES ISLAMIC BANK

(Public Joint Stock Company)

Headquarter
Building #16, Executive Building
Dubai Healthcare City
Dubai, UAE

Consolidated Financial Statements
For the year ended 31 December 2012

His Highness Sheikh Khalifa Bin Zayyed Al Nahyan
President of the United Arab Emirates

His Highness Sheikh Mohammed Bin Rashid Al Maktoum
UAE Vice President, Prime Minister and Ruler of Dubai

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OUR VISION

To be the leading provider of high standard Shari`a compliant innovative financial products, quality service and superior value for its customers, shareholders, employees and the community.

OUR MISSION

Providing innovative & high standard financial products & services governed by Islamic Shari`a provision to enrich the society.

CHAIRMAN'S MESSAGE

In recent years, we have seen a strong rise in demand for Islamic banking products and services. The interest in Islamic Banking is stretching beyond investors to Governments and Regulators, who are increasingly realising its significance in the current economic environment. This importance has also been recognized in the UAE with His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, pronouncing his vision to establish Dubai as a global centre for Islamic Banking.

This growth in Islamic Banking has also had a significant impact on the performance of Emirates Islamic Bank, which witnessed a very impressive growth over the year. 2012 has seen Emirates Islamic Bank grow its presence in the UAE to over 48 branches and over 100 ATMs and CDMs, to become the sixth largest bank in the country by footprint. Total income of the bank has also seen a solid increase of over 15 percent to become AED 1,344 million. More importantly, Emirates Islamic Bank has managed to return to profitability, with a solid trajectory towards significant growth over the coming years.

Furthermore, Emirates Islamic Bank has taken major steps towards its commitment to customer service and care, with convenience continuing as a core ethos. These efforts have been recognized and commended by the local and international markets. In 2012, the Bank won several noteworthy awards, including 'Best Islamic Bank in the UAE' by two leading international business magazines, which were announced at the World Finance's 2013 Islamic Finance Awards and Capital Finance International 2012 Islamic Finance Awards.

I would like to take this opportunity to congratulate all the stakeholders who have played a vital role in taking Emirates Islamic Bank to new heights. I would also like thank our Board of Directors, the CEO and Management, as well as the employees for their tireless efforts and continuous support. I look forward to 2013 being another year full of success and prosperity.

Hesham Abdulla Al Qassim
Chairman

CEO'S MESSAGE

In 2012 we continued to see the resurgence of the UAE economy. As the country moved towards growth, Emirates Islamic Bank was in a prime position to take advantage of this market growth and leverage it to deliver remarkable performance throughout the year.

During 2012, Emirates Islamic Bank became one of the fastest growing banks in the UAE, with its Revenues growing to more than AED 1.3 Billion. Over the same period, the bank's Operating Income rose by 61% to AED 538 Million. The pace of growth was a reflection of the organization's customer focused approach. Our strategy and clear focus has been recognized by the market and our peers as we have been recognized as the 'Best Islamic Bank - UAE' by World Finance, among other prestigious awards.

Retail was a substantial contributor in the bank's overall success during the year, experiencing strong growth across all product lines. The Corporate segment began its resurgence with the launch of a number of industry focused products and services. The SME business has been a clear focus and the launch of several new products and services has meant that the bank is in a position of strength to leverage the growth in this segment during 2013.

As an organization we are focusing on developing our human capital. Teamwork, cooperation plus internal satisfaction drive success and are delivered by our people. We want to boost our "people advantage" and will continue to invest to make this a reality. The bank is building a culture that values talent and ambition, while remaining cognizant of the fact that it is teamwork that drives success.

Before I close, I would like to thank our Board of Directors for their guidance and support, our customers for their trust and loyalty and our employees for the dedication and focus towards making us a success.

Jamal Bin Ghalaita
CEO

BOARD OF THE DIRECTORS' REPORT

Distinguished Shareholders of Emirates Islamic Bank,

Peace and Mercy of Allah be upon you.

It gives me great honor to report the 2012 results of the bank, where we have managed to achieve a renowned success on our path towards becoming the leading Islamic Bank in the UAE. The transformation initiatives launched in the late 2011 have resulted in a remarkable turnaround in 2012, with operating profits rising 61% over 2011. EIB is now recognized in the market as the fastest growing bank in the country. Following were the key pillars of Bank's strategy driving growth:

- Revamp of bank strategy to focus on Retail and Commercial banking segments
- Complete reorganization of the bank resulting in boost of revenue per staff while reducing overall cost
- Active yield and pricing management resulting in improved profitability
- Revamp of the funding structure, focusing on lower-cost funding products/segments
- Establishment of remedial functions within corporate banking to boost recovery of customers' receivables
- Continue to enhance provisions and coverage against non-performing assets
- Significant increase in Bank's sales force and frontline management

Following the acquisition of Dubai Bank by Emirates NBD back in 2011, the majority of Dubai Bank's customer and branches portfolio was migrated to Emirates Islamic Bank in December 2012. The smooth and seamless migration was another success story for Emirates Islamic Bank and the overall Group, as attested by the market. Having completed the whole process in less than 12 months with minimal service disruptions, was a first of kind in the region.

With the addition of Dubai Bank's footprint, Emirates Islamic Bank has now the 6th largest network in the UAE, with 49 branches and 164 ATM/CDM, a key enabler for continuing the growth story within the target segments.

The Financial Highlights:

1. Net profit of AED 81M compared to net loss of AED 448M in 2011.
2. Operating income rising by more than 61% to AED 538M.
3. Impairment allowances net of recoveries, made during the year, reached AED 457 million enhancing the NPL coverage ratio to 61%.
4. Capital Adequacy Ratio remained at 12.2% at December 2012 which have increased to 17% after capital injection of AED 1.5B in February 2013.

Recommendations:

The Board of Directors raises the following recommendations to the Annual General Meeting:

1. To approve the consolidated Financial Statements for the year ended 31st December 2012
2. Transfer to reserves amounting to 16.2M
3. Discharge of "Zakat" due to shareholders' equity (excluding capital) as per clause of 72-g of Articles of association

In the end, the Board of Directors extend their gratitude to the Shareholders for their boundless support and to all customers for their continuous trust and loyalty, as well as to the executive management of the Bank and staff members for their dedication and commitment, praying to Almighty Allah for the best achievements in the new year.

We pray to Almighty Allah to guide us all to the best.

On Behalf of Board of Directors

Jamal Bin Ghalaita
CEO

REPORT OF THE SHARI'A SUPERVISORY BOARD EMIRATES ISLAMIC BANK FOR 2012

To the Shareholders of Emirates Islamic Bank,

I submit, on behalf of Shari'a Supervisory Board of Emirates Islamic Bank, the following Annual Report in relation to transactions executed in the year 2012.

The Shari'a Supervisory Board has reviewed the contracts relating to the transactions and applications introduced by Emirates Islamic Bank during the period ended. I have also conducted due review to ensure that the Bank has complied with the Shari'a Rules and Principles and also with the specific fatwa, rulings and guidelines issued by the Shari'a Board.
To take into consideration that ensuring that the Bank functions in accordance with Shari'a Principles & Rulings is the duty of Bank's Management. It is my responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

The Shari'a Supervisory Board, through Dar Al Shari'a Legal & Financial Consultancy LLC which has an existing agreement with the bank, conducted overview which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank and on the basis of reports submitted by Shari'a Audit & Shari'a Research along with queries raised by the Shari'a Department of the Bank throughout the year. The Shari'a Supervisory Board endeavored through reasonable assurance that the Bank has not violated Shari'a Principles & Rulings.

Based on these insights, we are of the view that:

1. The contracts, transactions and dealings entered into by the Bank during the year 2012 that we have reviewed are in compliance with the Shari'a Principles & Rulings;
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with the Shari'a Principles & Rulings;
3. All earnings that have been realized from sources or by means prohibited by the Shari'a Principles & Rulings have been disposed of to charitable causes as approved by the Shari'a Board.
4. The mechanism of calculation Zakat is in compliance with the Shari'a Principles & Rulings and as per the Bank's Article of Association, the Bank is authorized to pay it on behalf of the shareholders.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

On Behalf of Fatwa & Shari'a Supervisory Board - Emirates Islamic Bank

Dr. Abdulsattar Abu Guhddah
Chairman & Executive Member of Shari'a Supervisory Board of Emirates Islamic Bank

THE DUE ZAKAT ON EMIRATES ISLAMIC BANK SHAREHOLDERS FOR THE FINANCIAL YEAR 2012

Share's Zakat to be calculated using one of the following methods:

1. Zakat on shares purchased for trading purposes (to sell them when the market value rises) is as following :
    - Zakat pool per share = share quoted Market value + Cash dividends per share for the Year – if any.
    - Zakat per share = Zakat pool per share × 2.5775%*
    - Net Zakat per share = Zakat per share – 0. 1354 UAE fills (Zakat on reserves per Share, Paid by the Bank)
    - Total Zakat payable on shares = Number of shares X Net Zakat per share

2. Zakat on Shares purchased for acquisition (to benefit from its returns) with no intention for its trading is equal to the amount of 2.3646 UAE Fills for each share. **

*Zakat is calculated at 2.5775% for the Gregorian year, and at 2.5% for Hijri year.

**it's equal to each share Zakat calculated by the Bank 2.5162 UAE Fills minus 0.04335 UAE Fills (Zakat on reserves per share, paid by the Bank for the shareholders)

INDEPENDENT AUDITORS' REPORT

The Shareholders
Emirates Islamic Bank PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Emirates Islamic Bank PJSC (the Bank) and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income (comprising a separate consolidated statement of income and a consolidated statement of comprehensive income), changes in equity and cash flow statement 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 the Islamic Sharia principles 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 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 Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

KPMG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (for the year ended 31 December 2012)

	Note	2012 AED'000	2011 AED'000
ASSETS			
Cash, and balances with U.A.E Central Bank	5	2,004,695	1,195,167
Due from banks	6	10,922,263	4,882,737
Financing receivables	7	19,825,471	12,969,041
Investments	8	2,911,381	2,197,591
Investment properties	9	1,119,133	1,111,317
Customer acceptances		124,831	90,096
Prepayments and other assets	10	247,195	195,293
Property and equipment	11	108,791	98,918
TOTAL ASSETS		**37,263,760**	**22,740,160**
LIABILITIES			
Customers' accounts	12	25,673,184	17,125,152
Due to banks	13	3,023,964	1,343,999
Sukuk payable	14	3,673,000	
Customer acceptances		124,831	90,096
Other liabilities	15	1,061,594	619,902
Zakat payable		3,291	1,053
Investment wakala	16	1,081,872	1,081,872
TOTAL LIABILITIES		**34,641,736**	**20,262,074**
SHAREHOLDERS' EQUITY			
Share capital	17	2,430,422	2,430,422
Statutory reserve	18	214,987	206,865
General reserve	18	120,766	112,644
Fair value reserve		66,632	515
Accumulated losses		(254,059)	(315,744)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		**2,578,748**	**2,434,702**
Non-controlling interest	19	43,276	43,384
TOTAL EQUITY		**2,622,024**	**2,478,086**
TOTAL LIABILITES AND EQUITY		**37,263,760**	**22,740,160**
COMMITMENTS AND CONTINGENT LIABILIITES	**20**	**4,472,047**	**4,360,138**

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 30 January 2013 and signed on their behalf by:

Chairman
Chief Executive Officer

The attached notes 1 to 36 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

CONSOLIDATED STATEMENT OF INCOME (for the year ended 31 December 2012)

	Note	2012 AED'000	2011 AED'000
INCOME			
Income from financing activities, net	21	760,873	699,951
Income/(loss) from investment securities, net	22	50,007	(45,531)
Income from Group Holding Company, net	23	275,866	240,642
Property related income, net	24	1,455	(5,843)
Commission and fee income, net	25	231,692	237,904
Other operating income, net	26	23,669	38,593
TOTAL INCOME		**1,343,562**	**1,165,716**
EXPENSES			
General and administrative expenses	27	(429,001)	(430,035)
TOTAL EXPENSES		**(429,001)**	**(430,035)**
NET OPERATING INCOME BEFORE ALLOWANCES FOR IMPAIRMENT AND DISTRIBUTIONS		**914,561**	**735,681**
Allowances for impairment, net of recoveries	28	(456,611)	(783,289)
NET OPERATING INCOME		**457,950**	**(47,608)**
Customers' share of profit and distribution to sukuk holders	29	(376,838)	(400,944)
NET PROFIT/(LOSS) FOR THE YEAR		**81,112**	**(448,552)**
Attributable to:			
Equity holders of the Bank		81,220	(401,495)
Non-controlling interest		(108)	(47,057)
NET PROFIT/(LOSS) FOR THE YEAR		**81,112**	**(448,552)**
Earnings/(loss) per share (Dirham)	**30**	**0.033**	**(0.165)**

The attached notes 1 to 36 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

CONSOLIDATED STATEMENT OF COMPREGENSIVE INCOME (for the year ended 31 December 2012)

	2012 AED'000	2011 AED'000
NET PROFIT/(LOSS) FOR THE YEAR	**81,112**	**(448,552)**
Other comprehensive income - Cumulative changes in fair value	66,117	515
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**147,229**	**(448,037)**
Attributable to:		
Equity holders of the Bank	147,337	(400,980)
Non-controlling interest	(108)	(47,057)
	147,229	**(448,037)**

The attached notes 1 to 36 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (for the year ended 31 December 2012)

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK						Non-controlling interest	Total equity
	Share capital	Statutory reserve	General reserve	Fair value reserve	Accumulated losses	Total		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
As at 1 January 2011	2,430,422	206,865	112,644	-	86,804	2,836,735	90,441	2,927,176
Net loss for the year	-	-	-	-	(401,495)	(401,495)	(47,057)	(448,552)
Other comprehensive income for the year	-	-	-	515	-	515	-	515
Zakat	-	-	-	-	(1,053)	(1,053)	-	(1,053)
As at 31 December 2011	**2,430,422**	**206,865**	**112,644**	**515**	**(315,744)**	**2,434,702**	**43,384**	**2,478,086**
As at 1 January 2012	2,430,422	206,865	112,644	515	(315,744)	2,434,702	43,384	2,478,086
Net profit for the year	-	-	-	-	81,220	81,220	(108)	81,112
Other comprehensive income for the year	-	-	-	66,117	-	66,117	-	66,117
Transfer to reserves	-	8,122	8,122	-	(16,244)	-	-	-
Zakat	-	-	-	-	(3,291)	(3,291)	-	(3,291)
As at 31 December 2012	**2,430,422**	**214,422**	**120,766**	**66,632**	**(254,059)**	**2,578,748**	**43,276**	**2,622,024**

The attached notes 1 to 36 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

CONSOLIDATED STATEMENT OF CASH FLOWS (for the year ended 31 December 2012)

	Note	2012 AED'000	2011 AED'000
OPERATING ACTIVITIES			
Net profit/(loss) for the year		81,220	(401,495)
Adjustments:			
Allowances for impairment on financing receivables, net		407,465	529,221
Allowances for impairment on investments, net		49,146	54,413
Allowances for impairment on investment properties		-	199,655
Dividend income		(2,537)	(14,591)
Gain on sale of investments		(6,441)	(3,426)
Unrealised loss on fair value of investment securities through profit and loss		19,813	99,996
Depreciation on investment properties		27,279	25,144
Depreciation on fixed assets		17,929	21,727
Operating profit before changes in operating assets and liabilities		**593,874**	**510,644**
Changes in reserve with U.A.E Central Bank		(717,725)	(34,593)
Changes in due from banks		(6,540,465)	5,521,129
Changes in financing receivables		(7,263,895)	1,127,460
Changes in prepayments and other assets		(51,902)	26,962
Changes in customers` accounts		8,548,032	(7,097,713)
Changes in due to banks		1,681,950	(5,742,138)
Changes in other liabilities		441,692	(97,318)
Zakat paid		(1,053)	(11,704)
Net cash (used in) / generated from operating activities		**(3,309,492)**	**(5,797,271)**
INVESTING ACTIVITIES			
(Purchase)/redemptions of investment securities, net		(738,940)	466,167
Proceeds from sale of investment securities		28,749	25,734
Dividend income received		2,537	14,591
Changes in investment properties		(35,095)	(18,198)
Changes in fixed assets, net		(27,802)	(16,140)
Net cash (used in)/generated from investing activities		**(770,551)**	**472,154**
FINANCING ACTIVITIES			
Proceeds from sukuk issuance		3,673,000	-
Changes in non-controlling interest		(108)	(47,057)
Net cash generated from/(used in) from financing activities		**3,672,892**	**(47,057)**
Net change in cash and cash equivalents		**(407,151)**	**(5,372,174)**
Cash and cash equivalents at the beginning of the year		2,009,711	7,381,885
Cash and cash equivalents at the end of the year	**31**	**1,602,560**	**2,009,711**

The attached notes 1 to 36 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (for the year ended 31 December 2012)

1. LEGAL STATUS AND ACTIVITIES

Emirates Islamic Bank formerly Middle East Bank (the "Bank") was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with limited liability in the Emirate of Dubai on 3rd of October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995 and is regulated by Central Bank of United Arab Emirates.

At an extraordinary general meeting held on 10th of March 2004, a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Sharia. The entire process was completed on 9th of October 2004 (the "Transformation Date") when the Bank obtained UAE Central Bank and other UAE authorities' approvals.

The Bank is a subsidiary of Emirates NBD PJSC, Dubai (the "Group Holding Company"). The ultimate parent company of the Group Holding Company is Investment Corporation of Dubai, the company in which the Government of Dubai is the major shareholders. The Bank is listed at Dubai Financial Market.

In addition to its head office in Dubai, the Bank operates through 49 branches in the UAE. The Financial Statements combine the activities of the Bank's head office and its branches and the following two subsidiaries (together referred as "the Group").

	Date of Incorporation & Country	Principal Activity	Ownership %
Emirates Islamic Financial Brokerage Co. LLC	26 April 2006, UAE	Financial brokerage services	100%
Ithmar Real Estate Development Co. PSC	9 June 2008, UAE	Real estate holding and trust companies	40%

The Bank exercises the controls on the management of Ithmar Real Estate Development Co. PSC through holding the majority of votes of its Board of Directors.

The Bank provides full commercial and banking services and offers a variety of products through Islamic financing and investing instruments in accordance with Islamic Sharia.

The Bank's registered office address is P.O. Box 6564, Dubai, United Arab Emirates.

2. BASIS OF PREPERATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and comply with the applicable requirements of the laws of the UAE.

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the following, which are measured at fair value:

- Financial assets at fair value through profit or loss; and
- Financial assets available for sale.

c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham (AED), which is the Group's functional currency. Except as indicated, financial information has been rounded to nearest thousand.

d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the management to use certain critical accounting estimates. It also 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 judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. Significant items where use of estimates and judgments required are outlined below.

i. Allowances for impairment

The Group reviews its financing receivables and investments to assess impairment on a regular basis. In assessing impairment, the Group evaluates whether an impairment loss should be recorded in the consolidated income statement. The Group estimates cash flows, financial situations of each counterparty and net realizable value of collaterals. Further, the methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually impaired Islamic financing and investing assets, the Group also makes a collective impairment allowance to recognise, at any reporting date that there will be an amount of Islamic financing and investment products which are impaired even though a specific trigger point for recognition of the loss has not yet occurred (known as the "emergence period").

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolong requires judgment. In making this judgment, the Group evaluates several market and non market factors.

ii. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from quoted prices and other valuation techniques, such instruments are recorded at cost.

iii. Impairment of non financial assets

At each consolidated reporting date, the Bank reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such condition exists the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell or value in use.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies set out below have been consistently applied to all period presented.

a) Basis of consolidation

i. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date - i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

ii. Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on ',a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

iii. Subsidiaries

Subsidiaries are entities controlled by the Group, The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

iv. Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has the decision-making powers to obtain the majority of the benefits the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

Information about the Group's securitisation activities is included in note 14 to accounts.

v. Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

vi. 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 intra-group transactions, are eliminated in preparing the consolidated financial statements Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

vii. Funds management

The Group manages and administers assets and other investment vehicles on behalf of investors, The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

b) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss an monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit: or loss. However, foreign currency differences arising from the retranslation of the following items are recognised in other comprehensive income:

- available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss);

c) Income from financing and investing activities

Income from financing activities include: income from; Murabaha, Ijara, Istisn'a, Walaka, Mudaraba and Musharaka. Income from financing activities is recognised in profit or loss using effective yield basis. Effective yield basis rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of financial asset. When calculating the effective yield, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not the future losses.

The calculation of effective yield includes all transaction cost and fees that are integral part of the transaction. It includes incremental cost that is directly attributable to the acquisition or issue of a financial asset.

d) Fees and commission

Fees and commission that are integral part of financing arrangement are included in the measurement of the effective yield.

Other fees and commission income, including portfolio and management fees, front end fees, Sukuk management fees are recognised as the related services performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

e) Earnings prohibited by the Shari'a

Earnings prohibited by the Shari'a are set aside for charitable purposes or otherwise dealt with in accordance with the directions of the Shari'a Supervisory Board.

f) Income from financial assets at fair value through profit or loss

Income from financial assets at fair value through profit or loss comprises of gains less losses related to financial assets designated through profit or loss and includes all realized and unrealised fair value changes, profits, dividends, and foreign exchange differences.

g) Dividend

Dividend income is recognised in the consolidated statement of income when Group's right to receive income is established.

h) Rental income

Rental income from investment properties are recognised in the consolidated statement of income on a straight line basis over the term of lease.

i) Financing assets and liabilities

i. Recognition

The Group initially recognises financing receivables, investments, customers accounts and Wakalah on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the assets all other assets and liabilities (including assets and liabilities designated through profit or loss) are recognised initially on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument.

A financial instrument is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets

The Group classifies its financial assets in one of the following categories:

- Financing receivables;
- Held to maturity;
- Available-for-sale; and
- Fair value through profit or loss.

Financing receivables principally divided into following Islamic products:

- **Murabaha:** An agreement whereby the Group sells to a customer a commodity or a property which the Group has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.

- **Financing Ijarah:** An agreement whereby the Group (lesser) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.
- **Istisna'a:** An agreement between the Group and a customer, whereby the Group develops and sells a property to the customer according to agreed upon specifications. The Group may develop the property on its own or through a subcontractor, and then hand it over to the customer on a pre agreed date and against fixed price.
- **Wakala:** An agreement whereby the Group provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.
- **Mudaraba:** An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal, and the other provides efforts and expertise and is called Mudarib who is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of profit as Mudaraba fee. In case of normal loss; Rab-Ul-Mal would bear the loss of his funds while Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, the Mudarib would bear the losses. The Group may acts as Mudarib when accepting funds from the holders of investment, saving and wakala accounts and as Rub-Ul-Mal when investing such funds on Mudaraba basis.
- **Musharaka:** An agreement between the Bank and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Financial Assets & Financial Liabilities to be in same formatin sheet 25 & 29 respectively.

Financial liabilities
The Group classifies its financial liabilities at amortised cost.

iii. Derecognition

Financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset 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 of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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 transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

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. Ai 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 servicing.

The Group securitises certain portion of financial receivables by sharia compliant arrangement called sukuk, which generally result in the sale of these assets to special-purpose entities, which in turn issue sukuks to investors, financing income in the securitised financial assets may be retained. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in other operating income.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

iv. Offsetting

Financial assets and liabilities are offseted and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts.
Income and expenses are presented on a net basis only when permitted by the accounting standards.

v. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial assets or liability is measured at initial recognition, minus principal repayment, plus or minus the cumulative amortisation using the effective profit rate method of any differences between the initial amount recognised and the maturity amount, minus impairment losses, if any.

vi. Fair value measurement

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 quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a 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, discounted cash flow analyses and option pricing models. 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 available observable market data.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity 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 best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price, If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables.

It includes only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

vii. Identification and measurement of impairment

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

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, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline' in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for financing receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant financing receivables and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. financing receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together financing receivables and held-to-maturity investment securities with similar risk characteristics.

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 benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective yield.

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 derecogrised and the new financial asset is recognised at fair value. The impairment loss is measured as follows:
- 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.
- 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.

Impairment losses are recognised in profit or loss and reflected in an allowance account against financing receivables or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, -:he decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income,

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Group writes off certain financing receivables and investment securities when they are determined to be uncollectible.

viii. 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; and
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

j) Cash and cash equivalent including reserve as per Central Bank of UAE

Central Bank of UAE requires certain percentage of customer account balances to be kept as cash reserve with the central Bank. Such reserve is not availale for day to day operation and doesn't earn any profit.
Cash and cash equivalent consists of cash at bank, current account with the UAE Central Bank, due from banks and Group Holding Company (including short-term Murabaha) less due to banks and Group Holding Company. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with outstanding maturities up to three months from the date of consolidated statement of financial position.

k) 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, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

i. Held to maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years.' However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

ii. Fair value through profit or loss

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in Note 8.

iii. Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-forsale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss .

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented In the fair value reserve in equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset or the foreseeable future or until maturity.

l) Property and equipment

i. Recognition and measurement'

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

ii. Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation and amortisation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

- Leasehold improvements 3 years
- Furniture 4 years
- Equipments 4 years
- Motor vehicles 3 years
- Computer hardware 4 years
- Computer software 3 years

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

Capital work-in-progress is stated at cost. When commissioned, they are transferred to the appropriate fixed assets category and depreciated in accordance with the Group's policies.

m) Investment properties

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. Investment property is initially measured at cost and subsequently at cost less impairment, includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss, When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

n) Customer accounts and Sukuk issued

Customer accounts, Sukuk issued and Wakalah investments are the Group's sources of funding.

i. Customer accounts

The Bank accepts customer investment and savings accounts either on Mudaraba basis or on Wakala basis.

ii. Sukuk

When Group sells a group of financial assets and simultaneously enters into an agreement to repurchase similar group of financial assets at a fixed price on future date under securitization of such group of assets. Such arrangement is accounted for as a Sukuk liability and the underlying group of assets continues to be recognized in the Group's consolidated financial statements.

iii. Wakala

Investment Wakala is an agreement whereby one party (the "Muwakkil" / "Principal") appoints an investment agent (the "Wakeel" / "Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital and is payable regardless the said Wakala generates profit or loss; while the share of the profit, if any, is an incentive for the Wakeel to achieve a return higher than expected. The Wakala profit, if any, goes to the Muwakkil, and he bears the loss. However, the Wakeel bears the loss in cases of default, negligence or violation of any of the terms of the Investment Wakala

o) Provision

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 at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The unwinding of the discount is recognised as finance cost.

i. Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly, Future operating losses are not provided for.

ii. Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost' of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

p) Financial guarantees and financing 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.

q) Provision for end of service benefits

Provision is made for end of service benefits to its expatriate employees in accordance with the UAE labor law. The entitlement of these benefits is based upon the employees' basic salary and length of service, subject to a completion of a minimum service period. These benefits are accrued over the period of employment. Provision for employees' end of service benefits at the reporting date is included under "Other Liabilities".

With respect to its UAE national employees, the Bank makes contributions to a pension fund established by the General Pension and Social Security Authority as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are recognised in the consolidated statement of income.

r) Earnings per share

The calculation of earnings per share is calculated by dividing the profit or loss for the year by the weighted average number of shares outstanding during the year.

s) Segment reporting

The Group presents segment information in respect of its business segment in accordance with the internal management model. An operating segment is the component of the Group that engages in business activities from which it may earn revenues and incur expenses including inter group transactions. Operating results are reviewed regularly by the Group management to make decision about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

t) Profit distribution

Profit distribution between the unrestricted account holders (investment, saving and Wakala accounts) and the Shareholders, is according to the instructions of the Bank's Fatwa and Sharia supervisory board.

- Net income realised from Mudaraba Pool, at the end of each quarter, represents the net profit available for distribution.
- Net profit available for distribution between unrestricted account holders and shareholders is calculated after deducting the Mudarib fee as per the agreed and declared percentage.

Profit Distribution is on a pro rata-basis of the weighted average balances of unrestricted customers accounts and Shareholders' funds. No priority is given to either party in the Mudaraba Pool.

u) Zakat

The Bank discharges Zakat (Alms) as per its Articles of Association. The Bank calculates Zakat based on the guidance of its Fatwa and Sharia Supervisory Board as follows:

- Zakat on shareholders' equity (except paid up capital) is discharged from the retained earnings.
- Zakat is disbursed to Sharia channels through a committee formed by management.
- Shareholders themselves are responsible to pay Zakat on their paid up capital.

Zakat on the general provision or on other reserves, if any, is calculated and discharged from the share of profit of the respective parties participating in the Mudaraba Pool.

v) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective date (early adoption permitted)
IFRS 9 Financial Instruments	This standard, issued as a replacement to IAS 39, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. It also includes the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities.	1 January 2015
IFRS 10 - Consolidated Financial Statements	The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.	1 January 2013
IFRS 11 - Joint Arrangements	IFRS 11 relates to joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	1 January 2013
IFRS 13, 'Fair value measurement	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.	1 January 2013
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.	1 January 2013

(continued)

Standard	Description	Effective date (early adoption permitted)
IAS 28 (revised 2011),'Associates and joint ventures'	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	1 January 2013
Amendment to IAS 19, 'Employee benefits'	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.	1 January 2013
Amendment to IAS 32 and IFRS 7 Financial Instruments: Presentation'	Offsetting Financial Assets and Financial Liabilities	1 January 2014

The Group has assessed the impact of the above standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date. The impact of IFRS 9 is likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project.

4. BUSINESS COMBINATION - ACQUISITION OF FINANCIAL ASSETS AND CUSTOMER DEPOSITS FROM DUBAI BANK PJSC

As part of overall strategy to manage two sharia complained banking businesses within the Emirates NBD Group majority of assets and liabilities of Dubai Bank PJSC were transferred to Emirates Islamic Bank PJSC by virtue of Sale Purchase Agreement dated November 30, 2012.

The objective of combination was to manage two sharia compliant Islamic banking businesses under one roof in a cost effective manner.

The carrying value of identifiable assets and liabilities that was acquired from Dubai Bank as at the date of acquisition was as follows:

	Recognised on acquisition AED'000
Cash and bank balances	896,324
Financing receivables	3,708,787
Investments	**115,704**
TOTAL ASSETS	**4,720,815**
Customer accounts	(7,492,639)
Others	(112,445)
TOTAL LIABILITIES	**(7,605,084)**
Carrying value of net liabilities acquired - Receivable from Dubai Bank	**(2,884,269)**

In addition to above the Bank has acquired off balance sheet liabilities amounting to AED 752,161,000 issued by Dubai Bank to its corporate customers. The transfer of net liabilities has been done at book value and the difference between assets and liabilities have been recognized by the Group as receivable from Dubai Bank PJSC.

The operating cost associated with transfer including IT services amounting to AED 49 million has been recognized as an expense in the consolidated statement of comprehensive income for the year ended 31 December 2012. Total income and net loss of the Group for the year ended 31 December 2012 included AED 14 million and AED 35 million respectively in respect of net liabilities acquired from Dubai Bank.

5. CASH AND BALANCES WITH UAE CENTRAL BANK

	2012 AED'000	2011 AED'000
Cash in hand	139,487	114,740
Balances with UAE Central Bank:		
Current Accounts	104,152	37,096
Reserve requirements	1,761,056	1,403,331
	2,004,695	**1,195,167**

6. DUE FROM BANKS

	2012 AED'000	2011 AED'000
Due from local banks		
Current Accounts	25	24
Murabaha Accounts	7,106,928	4,725,326
Deposit exchange (profit free)	495,450	50,000
Receivables from Dubai Bank, (Note 4)	2,884,269	-
Other balances	152,344	18,170
Due from foreign banks-current accounts	**283,247**	**89,217**
	10,922,263	**4,882,737**

7. FINANCING RECEIVABLES

	2012 AED'000	2011 AED'000
Murabaha	9,705,333	5,117,074
Ijarah	8,874,102	5,941,482
Istisna'a	1,319,978	1,087,428
Financing wakala	2,193,085	1,746,843
Musharaka	245,149	200,000
Mudarabah	83,805	73,460
Secured overdrafts	227,359	183,855
Credit Card receivables	954,366	569,020
	23,603,177	14,919,162
Less: Deferred income	(1,309,346)	(598,567)
Less: Allowances for impairment	(2,468,360)	(1,351,554)
	19,825,471	**12,969,041**

7. FINANCING RECEIVABLES (continued)	2012 AED'000	2011 AED'000
Movements in allowances for specific impairment:		
Balance at the beginning of the year	1,007,566	580,485
Allowances for impairment made during the year	461,575	446,680
Recoveries/write backs during the year	(106,059)	(19,599)
Transfer from Dubai Bank PJSC	449,739	-
Transfer from collective impairment	48,000	-
Balance at the end of the year	**1,860,821**	**1,007,599**
Movements in allowances for collective impairment:		
Balance at the beginning of the year	343,988	241,848
Allowances for impairment made during the year	51,949	102,140
Transfer from Dubai Bank PJSC	259,602	-
Transfer to specific impairment	(48,000)	-
Balance at the end of the year	**607,539**	**343.988**
	2.468.360	**1,351,554**

8. INVESTMENTS

	2012 AED'000	2011 AED'000
Fair value through profit or loss		
Equity shares	59,197	90,283
Funds	450	-
	59,647	90,283
Available-for-sale		
Equity shares	684,153	677,036
Funds	862,007	869,479
Sukuk	1,019,782	53,766
	2,565,942	1,600,281
Held-to-maturity		
Sukuk	527,947	687,236
	3,153,536	2,377,800
Less: Allowance for impairment	(242,155)	(180,209)
	2,911,381	**2,197,591**

8. INVESTMENTS (continued)

	2012 AED'000	2011 AED'000
Investment securities comprise:		
Quoted	1,261,917	184,709
Unquoted	1,649,464	2,012,882
	2,911,381	**2,197,591**
Investments located at:		
Investments within UAE	1,470,572	576,727
Investments outside UAE	1,440,809	1,620,864
	2,911,381	**2,197,591**
Movements in allowances for impairment:		
Balance at the beginning of the year	180,209	125,796
Allowances for impairment made during the year	49,146	54,413
Transfer from Dubai Bank	12,800	-
Balance at the end of the year	**242,155**	**180,209**

8.1 FAIR VALUE OF FINANCIALS ASSETS

2012	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Available-for-sale financial assets	1,099,723	63,593	1,402,626	2,565,942
Financial assets designated at fair value through profit or loss	59,197	450	-	59,647
	1,158,920	**64,043**	**1,402,626**	**2,625,589**
2011				
Available-for-sale financial assets	190,183	-	1,410,098	1,600,281
Financial assets designated at fair value through profit or loss	90,283	-	-	90,283
	280,466	**-**	**1,410,098**	**1,690,564**

Reconcilation of financial assets, classified under level 3	2012 AED'000	2011 AED'000
Balance at the beginning of the year	1,410,098	1,416,414
Investment made during the year	-	19,950
Repayment/redemptions during the year	(6,505)	(23,204)
Revaluation of foreign currency investment	(967)	(3,062)

Balance at the end of the year	**1,402,626**	**1,410,098**

9. INVESTMENT PROPERTIES

2012	Land AED'000	Building AED'000	Work-in-progress AED'000	Total AED'000
Cost				
Balance as at 1 January	667,790	764,940	95,540	1,528,270
Properties Purchased during the year	-	-	35,095	35,095
Properties Sold during the year	-	-	-	-
Gross Balance at 31 December	**667,790**	**764,940**	**130,635**	**1,563,365**
Less: Allowances for Impairment	(327,227)	-	(22,053)	(349,280)
Net Balance at 31 December	**340,563**	**764,940**	**108,582**	**1,214,085**
Accumulated Depreciation				
Balance as at 1 January	-	(67,673)	-	(67,673)
Charge during the year	-	(27,279)	-	(27,279)
Balance as at 31 December	-	**(94,952)**	-	**(94,952)**
Net Book Value at 31 December	**340,563**	**669,988**	**108,582**	**1,119,133**

2011	Land AED'000	Building AED'000	Work-in-progress AED'000	Total AED'000
Cost				
Balance as at 1 January	667,790	687,598	77,342	1,510,072
Properties Purchased during the year	-	77,342	22,578	99,920
Transfer to fixed assets	-	-	(4,380)	(4,380)
Properties Sold during the year	-	-	-	-
Gross Balance at 31 December	**667,790**	**764,940**	**95,540**	**1,528,270**
Less: Allowances for Impairment	(327,227)	-	(22,053)	(349,280)
Net Balance at 31 December	**340,563**	**764,940**	**73,487**	**1,178,990**
Accumulated Depreciation				
Balance as at 1 January	-	(42,529)	-	(42,529)
Charge during the year	-	(25,144)	-	(25,144)
Balance as at 31 December	-	**(67,673)**	-	**(67,673)**
Net Book Value at 31 December	**340,563**	**697,267**	**73,487**	**1,111,317**

The fair value of investment properties as of 31 December 2012 is AED 1,155,950,000 (2011: AED 1,111,317,000), based on valuation conducted by independent valuers and management's own assessment for expected benefit to be derived from these buildings over their expected useful lives.

All investment properties are located within the United Arab Emirates.

10. PREPAYMENTS AND OTHER ASSETS

	2012 AED'000	2011 AED'000
Dividend and profit receivable	25,719	8,373
Overdraft accounts (profit free)	67,661	31,972
Bills under Letters of Credits	42,688	2,888
Prepaid expenses	23,006	15,935
Deferred sales commissions	25,597	16,518
Goods available-for-sale	39,770	7,714
Others	22,754	111,893
	247,195	**195,293**

11. PROPERTY AND EQUIPMENT

2012	Freehold land AED'000	Leasehold improvements AED'000	Furniture AED'000	Equipment AED'000	Motor Vehicles AED'000	Computer hardware & software AED'000	Capital work in progress (C-WIP) AED'000	Total AED'000
Cost								
As at 1 January 2012	50,580	71,968	15,246	20,299	1,290	41,243	20,971	221,597
Additions	-	337	253	1,344	118	1,423	12,755	16,230
Transfer from Dubai Bank	-	-	28,798	13,526	929	9,333	-	52,586
Transfer from C-WIP	-	2,951	250	541	-	1,382	(5,124)	-
Transfers from Investment properties	-	-	-	-	-	-	-	-
Disposals	-	(2,943)	-	-	(60)	-	(274)	(3,277)
Net book value as at 31 December 2012	**50,580**	**72,313**	**44,547**	**35,710**	**2,277**	**53,381**	**28,328**	**287,136**
Accumulated depreciation								
As at 1 January 2012	-	(61,994)	(12,279)	(16,682)	(1,164)	(30,560)	-	(122,679)
Charge for the year	-	(7,762)	(1,890)	(2,167)	(122)	(5,988)	-	(17,929)
Transfer from Dubai Bank	-	-	(23,243)	(10,503)	(818)	(4,625)	-	(39,189)
Disposals	-	1,392	-	-	60	-	-	1,452
As at 31 December 2012	**-**	**(68,364)**	**(37,412)**	**(29,352)**	**(2,044)**	**(41,173)**	**-**	**(178,345)**
Net book value as at 31 December 2012	**50,580**	**3,949**	**7,135**	**6,358**	**233**	**12,208**	**28,328**	**108,791**

11. PROPERTY AND EQUIPMENT (continued)

2011	Freehold land AED'000	Leasehold improvements AED'000	Furniture AED'000	Equipment AED'000	Motor Vehicles AED'000	Computer hardware & software AED'000	Capital work in progress (C-WIP) AED'000	Total AED'000
Cost								
As at 1 January 2011	46,200	70,331	14,284	18,601	1,207	32,044	24,023	206,690
Additions	-	1,477	512	998	139	1,724	8,986	13,836
Transfer from C-WIP	-	3,413	450	700	-	7,475	(12,038)	-
Transfer from Investment properties	4,380	-	-	-	-	-	-	4,380
Disposals	-	(3,253)	-	-	(56)	-	-	(3,309)
Net book value as at 31 December 2011	**50,580**	**71,968**	**15,246**	**20,299**	**1,290**	**41,243**	**20,971**	**221,597**
Accumulated depreciation								
As at 1 January 2011	-	(51,346)	(9,878)	(14,475)	(1,106)	(25,380)	-	(102,185)
Charge for the year	-	(11,825)	(2,401)	(2,207)	(114)	(5,180)	-	(21,727)
Disposals	-	1,177	-	-	56	-	-	1,233
As at 31 December 2011	**-**	**(61,994)**	**(12,279)**	**(16,682)**	**(1,164)**	**(30,560)**	**-**	**(122,679)**
Net book value as at 31 December 2011	**50,580**	**9,974**	**2,967**	**3,617**	**126**	**10,683**	**20,971**	**98,918**

12. CUSTOMERS' ACCOUNTS

	2012 AED'000	2011 AED'000
Current accounts	6,620,109	4,202,644
Saving accounts	5,304,389	2,151,516
Investment accounts	6,309,127	7,574,558
Wakala accounts	7,286,022	3,099,326
Margins	153,537	97,108
	25,673,184	**17,125,152**
Customers' accounts concentrated as follows:		
Resident customer accounts	25,197,148	16,617,431
Non-Resident customer accounts	476,036	507,721
	25,673,184	**17,125,152**

13. DUE TO BANKS

	2012 AED'000	2011 AED'000
Current accounts	6,209	8,186
Overdraft with correspondents	14	22
Investment accounts	72,910	79,426
Deposit exchange (profit free)	367,300	-
Wakala accounts	2,577,531	1,256,365
	3,023,964	**1,343,999**
Due to banks concentrated as follows:		
Due to local banks	2,946,891	1,256,365
Due to foreign banks	77,073	87,634
	3,023,964	**1,343,999**

14. SUKUK PAYABLE

The Bank, through a Sharia'a compliant sukuk financing arrangement, raised two tranches of US Dollar denominated medium term finance amounting to USD 500,000,000 each (AED 1,836,500,000).

The sukuks are listed on the London Stock Exchange. The terms of the arrangement include transfer of certain identified assets (the "Co Owned Assets") of the Bank to a sukuk company, EIB Sukuk Company Limited - (the "Issuer"), a special purpose vehicle formed for the issuance of sukuk. In substance, the coowned assets remain in control of the Bank, accordingly these assets continue to be recognized by the Bank. In case of any default, the Holding Company has provided an undertaking to make good all losses to the sukuk holders. The sukuks will be due for maturity during January 2017 and June 2017 respectively. The assets are in the control of the Bank and shall continue to be serviced by the Bank.

The Issuer will pay the semi-annually distribution amount from returns received in respect of the Co Owned Assets. Such proceeds are expected to be sufficient to cover the semi-annually distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at the exercise price.

The sukuks carry a fixed profit rate of 4.718% and 4.14% per annum respectively. Such profits are payable on a semi-annual basis.

15. OTHER LIABILITIES

	2012 AED'000	2011 AED'000
Investment, saving and wakala accounts' share of profit (Note 29)	191,085	60,357
Provision for employee benefits	71,231	78,821
Manager Cheques	265,783	49,806
Trade payables	103,566	53,094
Properties related liabilities	149,818	148,837
Forfeited income	20,612	569
Others	259,499	228,418
	1,061,594	**619,902**

16. INVESTMENT WAKALA

The Bank has received funds, on Wakala basis, aggregating to AED 1,081,872,000 in December 2008 from the Ministry of Finance, Government of UAE, payable after five years (extendable up to seven years), subject to certain conditions as per the Wakala agreement, and carries profit at the rate of 4.5% (2011: 4.5%).This is subordinated and eligible as Teir II capital.

17. SHARE CAPITAL

	2012 AED'000	2011 AED'000
Authorised Share Capital		
3,000,000,000 (2011: 3,000,000,000) ordinary shares of AED each (2011: AED 1 each)	3,000,000	3,000,000
Issued and fully paid up capital		
2,430,422,000 (2011: 2,430,422,000) ordinary shares of AED 1 each (2011: AED 1 each)	2,430,422	2,430,422

Shareholders of the Bank in extra ordinary general meeting held on 23rd December 2012 have approved increase in authorized share capital by AED 2,000,000,000 and paid up share capital by AED 1,500,000,000. After completion of legal formalities injection of capital will be completed.

18. STATUTORY RESERVE & GENERAL RESERVE

In accordance with the Bank's Articles of Association, Article (82) of Union Law no. 10 of 1980 and Federal Commercial Companies Law, the Bank transfers 10% of Shareholders' net profit for the year, if any, to the statutory reserve until such reserve equals 50% of the paid-up share capital. This reserve is restricted and is not available for distribution.

A further 10% of shareholders' net profit for the year, if any, is transferred to the general reserve until it reaches 10% of the paid-up capital. This transfer may be suspended by an ordinary General Meeting, based on Board of Directors' recommendation. The Board of Directors proposes the use of the general reserve at its discretion.

19. NON-CONTROLLING INTEREST

Non controlling interest of AED 43,276,000 (2011: AED 43,384,000) represents the 60% of shares of Ithmar Real Estate Development Co. not owned by the Bank (note 1). Amount included in the profit and loss of AED 108,000 (2011: AED 47,057,000) represents the loss for the year ended 31 December 2012 of 60% on shares (not owned by the Bank) of Ithmar Real Estate Development Company.

20. CONTINGENTCIES AND COMMITMENTS

The Bank provides letters of guarantee and letters of credit to meet the requirements of its customers. These commitments have fixed limits and expirations, and are not concentrated in any period, and are arising in the normal course of business, as follows:

	2012 AED'000	2011 AED'000
Letters of guarantee	2,916,996	2,440,567
Letters of credit	644,930	499,245
Irrevocable financing commitments	764,618	1,240,432
Capital expenditure commitments including in respect of investment properties	129,759	155,195
Commitments in respect of operating lease	15,744	24,699
	4,472,047	**4,360,138**

21. INCOME FROM FINANCING ACTIVITIES, NET

	2012 AED'000	2011 AED'000
Commodities Murabaha	133,166	83,862
Vehicles Murabaha	180,572	159,891
Syndication Murabaha	533	6,089
Real Estates Murabaha	7,803	15,907
Ijarah	346,788	327,010
Istisna'a	17,187	20,999
Financing wakala	56,760	78,938
Others	18,064	7,255
	760,873	**699,951**

22. INCOME/(LOSS) FROM INVESTMENT SECURITIES, NET

	2012 AED'000	2011 AED'000
Realised gain/(loss) - fair value through profit or loss	1,442	1,222
Realised gain - available for sale investments	4,999	2,204
Unrealised loss - fair value through porfit or loss	(19,813)	(99,996)
Dividend Income - fair value through profit or loss	2,537	14,591
Investing profit - available-for-sale investments	26,824	656
Investing profit - held-to-maturity investments	34,018	35,792
	50,007	**(45,531)**

23. INCOME FROM GROUP HOLDING COMPANY, NET

	2012 AED'000	2011 AED'000
Short term murabaha	328,721	266,353
Investment wakala	(52,855)	(25,711)
	275,866	**240,642**

24. PROPERTY RELATED INCOME, NET

	2012 AED'000	2011 AED'000
Rental income	38,874	25,836
Property related expenses	(10,140)	(6,535)
Depreciation of investment properties	(27,279)	(25,144)
	1,455	**(5,843)**

25. COMMISSION AND FEE INCOME, NET

	2012 AED'000	2011 AED'000
Commissions and fees	193,617	129,962
Portfolio and management fees	519	4,025
Front end fees	5,440	8,922
Sukuk management fees	29,515	74,735
Others	20,933	31,919
	250,024	**249,563**
Less: Commissions and fees paid	(18,332)	(11,659)
	231,692	**237,904**

26. OTHER OPERATING INCOME, NET

	2012 AED'000	2011 AED'000
Foreign exchange gains, net	33,237	29,799
Others	(9,568)	8,794
	23,669	**38,593**

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2012 AED'000	2011 AED'000
Staff related expenses	(273,669)	(296,002)
Administrative & operating expenses	(137,403)	(112,306)
Depreciation of fixed assets (Notes 11)	(17,929)	(21,727)
	(429,001)	**(430,035)**

28. ALLOWANCES FOR IMPAIRMENT, NET OF RECOVERIES

	2012 AED'000	2011 AED'000
Financing receivables		
Allowances made during the year	(513,524)	(548,820)
Recoveries	106,059	19,599
	(407,465)	(529,221)
Investments		
Allowances made during the year	(49,146)	(54,413)
	(49,146)	(54,413)
Investment properties		
Allowances made during the year	-	(209,868)
Reversal	-	10,213
	-	(199,655)
	(456,611)	**(783,289)**

29. CUSTOMERS' SHARE OF PROFIT AND DISTRIBUTION TO SUKUK HOLDERS

	2012 AED'000	2011 AED'000
Customer accounts	(254,420)	(400,944)
Sukuk issued	(122,418)	-
	(376,838)	**(400,944)**

The distribution of profit between unrestricted account holders (investment, saving and wakala accounts) and shareholders is made, quarterly, in accordance with the method approved by the Bank's Fatwa and Sharia Supervisory Board.

30. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on profit of AED 81,220,000 (2011: loss of AED 401,495,000), for the year divided by the weighted average of the number of shares outstanding during the year: 2,430,422,000 shares (2011: 2,430,422,000 shares).

No figures for diluted earnings per share have been presented as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

31. CASH AND CASH EQUIVALENTS

	2012 AED'000	2011 AED'000
Cash	139,487	114,740
Current account with U.A.E Central Bank	104,152	37,096
Due from banks	1,365,144	1,866,083
Due to banks	(6,223)	(8,208)
	1,602,560	**2,009,711**

32. RELATED PARTY TRANSACTIONS

The ultimate parent of the Group is Investment Corporation of Dubai (55.6%), a company in which the Government of Dubai is the major shareholder.

Customer accounts and financing to Government related entities other than those that have been individually disclosed amount to 9.45% and 3.47% of the total customers' accounts and financing receivables of the Group respectively.

These entities are independently run business entities, and all the financial dealings with the Group are on an agreed basis. The Group has also entered into transactions with certain other related parties who are non government related entities. Such transactions were also made on substantially the same terms, including profit rates and collaterals, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party transactions are as follows:

Consolidated interim statement of income	**2012** **AED'000**	**2011** **AED'000**
Income from Group Holding Company, net	275,866	240,642
Key management personnel compensations	(8,812)	(8,718)
Key management personnel compensations - retirements benefits	(26,798)	(363)
Loss from funds managed by Group Holding Company, net of dividend	-	(60,369)

Consolidated interim statement of financial position	**2012** **AED'000**	**2011** **AED'000**
Due from Group Holding Company, net	4,809,891	3,537,131
Due from Ulimtate Parent Company	613,376	-
Due to Ultimate Parent Company	(661,308)	-
Due from Dubai Bank PJSC	2,884,269	-
Financing receivables - Directors & affiliates	-	8,394
Financing receivables - Key management personnel & affiliates	11,648	33,416
Current and Investment accounts - Directors	(571)	(6)
Current and Investment accounts - Key management personnal	(3,933)	(14,142)
Investment in Government of Dubai Sukuk	79,594	55,095
Sale of investments to Group Holding Company	-	378,797
Loans to funds managed by the Group	-	139,616

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the year with key management personnel and their immediate relations at the year end.

As explained in Note 4, the Group has acquired certain assets and liabilities from Dubai Bank PJSC a subsidiary of Group Holding Company. Details of assets and liabilities have been mentioned in Note 4 to the financial statements.

33. OPERATING SEGMENT

The Group's activities comprise the following main business segments:

Corporate and Investment

Within this business segment, the Bank provides to corporate customers a range of products and services and accepts their deposits. This segment invests in investment securities, sukuks, funds and Real Estate sector.

Retail

Retail segment provides a wide range of products and services to individuals and accepts their deposits.

Treasury

This segment mainly includes Murabaha deals with Group Holding Company.

33. OPERATING SEGMENT (continued)

	Corporate & Investment		Retail		Treasury		Total	
	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000
Consolidated statement of income								
Segment income	495,056	465,357	345,639	258,258	275,867	240,644	1,116,562	964,259
Inter segment wakala income	(106,186)	(84,580)	185,081	226,554	(78,895)	(141,974)	-	-
Commission, fees & other Income	80,934	72,057	144,897	114,644	1,169	14,756	227,000	201,457
Total income	**469,804**	**452,834**	**675,617**	**599,456**	**198,141**	**113,426**	**1,343,562**	**1,165,716**
General and administrative expenses	(132,511)	(140,004)	(324,993)	(287,192)	28,504	(2,839)	(429,001)	(430,035)
Total expenses	**(132,511)**	**(140,004)**	**(324,993)**	**(287,192)**	**18,504**	**(2,839)**	**(429,001)**	**(430,035)**
Net operating income	**337,293**	**312,830**	**350,624**	**312,264**	**226,645**	**110,587**	**914,561**	**735,681**
Allowances for impairment, net of recoveries	(429,822)	(730,296)	(26,789)	(52,993)	-	-	(456,611)	(783,289)
	(92,529)	**(417,466)**	**323,835**	**259,271**	**226,645**	**110,587**	**457,950**	**(47,608)**
Customers' share of profit and distribution to sukuk holders	(113,320)	(187,097)	(142,477)	(213,848)	(121,041)	-	(376,838)	(400,944)
NET (LOSS)/PROFIT FOR THE YEAR	**(205,849)**	**(604,563)**	**181,358**	**45,423**	**105,604**	**110,587**	**81,112**	**(448,552)**

33. OPERATING SEGMENT (continued)

	Corporate & Investment		Retail		Treasury		Total	
	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000
Consolidated statement of financial position								
Assets								
Segment assets	17,693,575	11,644,028	9,171,510	4,633,920	8,281,633	5,034,473	35,146,718	21,312,521
Central Bank Reserve Requirements	704,422	417,332	1,056,634	625,999	-	-	1,761,056	1,043,331
Unallocated assets	-	-	-	-	-	-	355,986	384,308
Total Assets	**18,397,997**	**12,061,360**	**10,228,144**	**5,259,919**	**8,281,633**	**5,034,573**	**37,263,760**	**22,740,160**
Liabilities								
Segment liabilities	7,484,335	5,232,402	18,313,680	13,122,097	7,778,836	1,256,365	33,576,851	19,610,864
Unallocated liabilities	-	-	-	-	-	-	1,064,885	651,210
Total Liabilities	**7,484,335**	**5,232,402**	**18,313,680**	**13,122,097**	**7,778,836**	**1,256,365**	**34,641,736**	**20,262,074**

34. RISK MANAGEMENT

Risk management framework and processes:
The complexity in the Group's business operations and diversity requires identification, measurement, aggregation and effective management of risk. The Group manages its risks through a comprehensive risk management framework which incorporates organisational structure, risk measurement and monitoring processes.

The key features of the Group's comprehensive risk management framework are:
- The Board of Directors ("the Board") has the overall responsibility of managing risk and provides the overall risk management direction and oversight.
- The Group's overall risk management process is managed by the Group risk management function ("Group Risk"), headed by the Chief Risk Officer ("CRO"). This function is independent of the business divisions.
- Credit, market, operational and liquidity risks are managed in a coordinated manner within the organization.
- Board committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework.

Each department of the Bank is responsible for:
- Identifying and measuring the risks that the Bank is exposed to and considering whether those risks are significant;
- Developing and recommending for approval appropriate risk management policies and procedures regarding those activities and business units which are susceptible to significant risk, including business continuity plans. All risk management policies must be approved by the Board of Directors;
- Providing direction regarding the Bank's overall risk philosophy and risk tolerance, including considering whether certain new business proposals referred to EXCO are acceptable from a risk management perspective;
- Monitoring compliance with risk management policies and procedures;
- Adherence to risk guidelines under Basel II, and
- Reporting any policy or major practice changes, unusual situations, significant exceptions and new strategies to the Board of Directors for review, approval and/or ratification.

Distributions of profit to shareholders and unrestricted customers' accounts (investment, saving and wakala accounts') is subject to a comprehensive risk management system that is reviewed at the management level, the Sharia Board level and ALCO level to maintain the appropriate distribution levels taking into account the Bank's performance, competitors> profit distributions and market conditions.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party in a financial asset fails to meet its contractual obligations, and arises principally from the Group's financing and investing activities. The Group attempts to control credit risk by monitoring credit exposure, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Credit risk management and structure:
The approach to credit risk management is based on the foundation of preserving the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures in the business segments.

The Group's credit policy focuses on the core credit policies and includes lending parameters, target businesses, specific policy guidelines, management of high risk customers, provisioning guidelines and cross over activity.

The Board of Directors (BOD) and the Board Credit and Investment Committee ("BCIC") have delegated authority to certain members of the senior management to facilitate and effectively manage the business. A chain of specific delegated limits are vested upon individuals starting from business unit levels to the Chief Executive Officer ("CEO"). However, the Board and the BCIC retain the ultimate authority to approve larger credits.

Management of corporate credit risk:
The process of managing corporate credit risk is as follows:
- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends and the customer's standing within the industry.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations.
- Borrower risk grading - Presently each borrower is rated on a scale of 1 to 5, in line with Central Bank of the UAE

requirements. While preparing Internal rating models, each borrower is also in parallel risk graded along a 28 grade Master scale according to its risk characteristics. The Master scale introduced during the latter part of the year has twenty-four performing grades from 1a to 4f and four non-performing or default grades from 5a to 5d. Rating models have been developed and implemented across various business segments of the Group, and are presently under validation/testing process.

- Management of high risk accounts - This include identification of delinquent accounts and controls applicable for close monitoring. Policies on profit suspension and provisioning are strictly adhered to thereby reflecting actual income and quality of assets.
- Exceptions monitoring and management - Exceptions are monitored and managed in line with credit policies.

Management of consumer credit risk:

- An independent unit formulates retail credit policies and monitors compliance.
- Policies are reviewed and updated on a regular basis to ensure that current market trends are considered on a timely basis.
- Retail lending is handled through a workflow driven system that assists underwriters in assigning limits and in the approval of exceptions.
- All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk and reward dynamics.
- The risk grade of an account reflects the associated risks measured by the delinquency history. Application and behavior probability of defaults ("PDs") are used to map retail exposures to the Masters scale, which is presently under validation/testing process.

Credit risk monitoring:

The Group's exposures are continuously monitored through a system of triggers and early warning signals, which are used in the risk grading process. These are supplemented by monitoring of account conduct, valuation of collateral and market intelligence.

The health of the Group's credit portfolio is continuously assessed/monitored on the basis of exception/management information reports/returns generated by the business units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

A specialised team in holding company "Special Loans Group" handles the management and collection of problem credit.

Group credit risk mitigation strategy:

The Group operates within:

1. Exposure limits imposed by the UAE Central Bank;
2. Exposure limits imposed by the Board/BCIC/management;
3. Country limits approved by the Board/BCIC/management; and
4. Various sectoral/product ceilings.

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by setting customer, industry and geographical limits.

a. Credit risk (continued)

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

Analysis by Economic Activity for Assets:

	2012		2011	
	Financing receivables AED'000	Others AED'000	Financing receivables AED'000	Others AED'000
Agriculture and related activities	13,044	-	457	-
Manufacturing	307,069	-	377,305	87,363
Construction	464,912	-	515,458	-
Trade	1,008,482	-	824,811	-
Transportation and communication	189,058	-	162,886	-
Services	1,505,798	130,713	1,048,554	185,730
Sovereign	-	160,151	-	66,368
Personal	11,797,042	-	5,782,305	-
Real estates	4,889,825	1,229,576	4,455,436	1,094,832
Financial institutions	2,573,936	12,555,359	1,331,109	5,826,244
Others	854,011	-	420,841	-
Total	23,603,177	14,075,799	14,919,162	7,260,537
Less: Deferred income	(1,309,346)	-	(598,567)	-
Less: Allowances for impairment	(2,468,360)	(242,155)	(1,351,554)	(180,209)
Net Carrying Value	**19,825,471**	**13,833,644**	**12,969,041**	**7,080,328**

Collateral management:

Credit risk assessment identifies the primary sources of repayment which are the obligor's normal business cash flows and/or normal personal income. Where credit facilities are secured by collateral, the Group seeks to ensure the enforceability of the facilities.

Acceptable collateral includes deposit marked with lien, mortgage over land and property, movable assets including inventory, securities, investment grade bonds, gold and guarantees. The maximum lending value and the valuation frequencies are documented in the corporate credit policy.

Collaterals are revalued as a general rule as per the policy. However adhoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed.

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use non-cash collateral for its own operations.

Risk gross maximum exposure:
The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2012 AED'000	2011 AED'000
Balances with UAE Central Bank	1,865,208	1,080,427
Due from banks	10,922,263	4,882,737
Financing receivables	19,825,471	12,969,041
Investments	1,507,983	721,588
Other assets	136,068	43,233
Total	**34,256,993**	**19,697,026**
Contingent liabilities	3,561,926	2,939,812
Total credit risk exposure	**37,818,919**	**22,636,838**

a. Credit risk (continued)

Credit quality analysis:
The credit quality of financial assets is managed by the Group. The table below shows the credit quality by class of financial assets, based on the Groups credit rating policy.

	Of which neither impaired nor past due on reporting date				Of which past due but not impaired on the reporting date				Of which individually impaired		
2012	Carrying amount AED'000	Low/Fair risk AED'000	Watch list AED'000	Renegotiated terms AED'000	< 30 days AED'000	30-60 days AED'000	61-90 days AED'000	> 90 days AED'000	Carrying amount AED'000	Allowance for impairment AED'000	Gross amount AED'000
Due from banks and Group Holding Company	10,922,263	10,922,263	-	-	-	-	-	-	-	-	-
Financing receivables:									-	-	-
Retail	9,362,096	8,331,301	-	-	498,293	168,271	70,179	-	294,052	840,007	1,134,059
Corporate	11,070,914	3,774,924	2,435,120	769,698	462,275	225,972	152,343	1,357,542	1,893,039	1,020,814	2,913,583
	20,433,010	12,106,225	2,435,120	769,698	960,568	394,243	222,522	1,357,542	2,187,091	1,860,821	4,047,912
Investments:											
Debt securities	1,507,983	1,410,043	-	-	-	-	-	-	97,940	39,746	137,686

a. Credit risk (continued)

Credit quality analysis (continued):

	Of which neither impaired nor past due on reporting date				Of which past due but not impaired on the reporting date				Of which individually impaired		
2011	**Carrying amount** AED'000	**Low/Fair risk** AED'000	**Watch list** AED'000	**Renegotiated terms** AED'000	**< 30 days** AED'000	**30-60 days** AED'000	**61-90 days** AED'000	**> 90 days** AED'000	**Carrying amount** AED'000	**Allowance for impairment** AED'000	**Gross amount** AED'000
Due from banks and Group Holding Company	4,882,737	4,882,737	-	-	-	-	-	-	-	-	-
Financing receivables:									-	-	-
Retail	4,747,587	4,360,953	-	-	261,042	46,999	19,932	-	58,660	390,628	449,288
Corporate	8,565,442	2,415,067	1,438,078	1,598,703	452,255	106,715	371,119	661,281	1,522,223	616,938	2,139,161
	13,313,029	6,776,020	1,438,078	1,598,703	713,297	153,714	391,051	661,281	1,580,883	1,007,566	2,588,449
Investments:											
Debt securities	721,588	652,850	-	-	-	-	-	-	68,738	19,414	88,152

a. Credit risk (continued)

Financing with renegotiated terms
Financing with renegotiated terms are loans, the repayment plan of which have been restructured to align with the changed cash flows of the borrower with no other concessions by way of reduction in the amount or profit, but in some instances with improved security. These financing are treated as standard loans and continue to be reported in the renegotiated loans category until satisfactory compliance with the revised terms for a period of twelve months from the date of restructuring. Renegotiated financing are secured by a combination of tangible security and corporate/personal guarantees.

Watch list
The asset portfolio is reviewed quarterly at a minimum. Potential problem credits are identified in time and transferred to "watch list" category for close monitoring.

Past due but not impaired
Exposures where contractual profit or principal payment are past due for more than 90 days but the Group believes, on individual assessment, that the impairment is not appropriate considering the borrower's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of the borrower's receivables and/or the stage of collection of the amounts owed to the Group.

Definition of impaired financial assets
A counterparty is marked as impaired if:
1. In case of corporate exposures, the Group considers the counterparty unlikely to pay due to one of the following conditions:
- **a.** A material credit obligation has been put on non-accrual status;
- **b.** Distressed restructuring of a credit obligation;
- **c.** Selling of a credit obligation at an economic loss; and
- **d.** The Group or a third party has filed for the counterparty's bankruptcy.

2. In case of retail, if the exposure is past due for more than 90 days, it is considered to be impaired.

Impairment assessment
The asset portfolio is reviewed at least quarterly at a minimum or as often as necessitated. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per the credit policy on risk grades. Impaired assets are classified as such through approvals on a credit memorandum and reported at least on quarterly intervals to the Board sub committees.

Measurement of specific impairment
Corporate banking: The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. The impairment losses are evaluated at each reporting date. Allowances are made in accordance with IFRS where early warning signs of losses are evident. Specific impairment is assessed when a credit exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days.

Consumer banking: Criteria for provisions are based on products, namely, credit cards and other retail loans. All retail loans are classified as non-performing at 90 days and provisions are made in line with the Group's income and loss recognition policies.

Measurement of collective impairment
Provisions for collective impairment are made based on the IAS 39 guidelines. Impairments that cannot be identified with an individual loan are identified on a portfolio basis. The Group has adopted the following methodologies for determining the collective portfolio impairment provisions:

Corporate banking: Historical loss rates for different industry sectors are calculated to determine the collective impairment provisions for the corporate portfolios. To ensure that the impact of economic cycles is incorporated, the loss rates are benchmarked against published default histories observed over economic cycles in different markets. Industry specific adjustments are made to reflect the current market conditions. A number of stress scenarios are run to ensure that the reserves are adequate and reflect a realistic level of collective impairment provisions.

Consumer banking: Collective impairment provisions for the retail portfolios are determined based on a flow rates methodology. Flow rates for various retail loan products are monitored over a period of time to determine the average flow rates. The flow rates and average loss rates for various historical windows are considered to determine the appropriate level of collective impairment provisions.

b. Market risk

Market risk is the risk of loss arising from unexpected changes in financial prices, for instance, as a result of fluctuations in profit rates and/or exchange rates, equity and commodity prices. Consistent with the Group's approach to strict compliance with Islamic Sharia, the Group does not enter into speculative foreign exchange and currency transactions. The Group only enters into a limited amount of foreign exchange and currency transactions to hedge its commercial activities.

The Group's market risk is managed through risk limits set by the ALCO and approved by the Group's Board of Directors. Risk limits are reviewed by the ALCO on an annual basis. The market risk limits are monitored independently by the Emirates Bank group risk department on a regular basis, and exceptions, if any, are reported to senior management and approved by the ALCO.

i. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not significantly exposed to any currency risk as it does not hold any open position is foreign currencies.

ii. Profit rate risk

Profit rate or pricing risk, comprising market and valuations risk, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the Asset and Liability Committee (ALCO). If the market profit rate (EIBOR) declines by 100 basis points it will result in decline of income from financing receivables by AED 59,000,000 (2010: AED 58,000,000).

The Group is not significantly exposed to risk in terms of the repricing of its liabilities since primarily in accordance with Islamic Sharia, the Group does not provide a contractual rate of return to its depositors.

iii. Price risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2012) due to reasonably possible change in equity indices, with all other variables held constant, is as follows:

	31 December 2012			31 December 2011		
	% Change in market indices	Effect on net profit AED' 000	Effect on OCI AED' 000	% Change in market indices	Effect on net profit AED' 000	Effect on OCI AED' 000
Equity	10	92,743	4,066	10	4,066	-
Sukuk	10	42,464	101,978	10	-	5,376

c. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or external events. This type of risk includes fraud, unauthorized activities, errors and settlement risk arising from the large number of daily Banking transactions occurring in the normal course of business. There is also a wide variety of business risks such as legal, regulatory, human resources and reputation risks inherent in all business activities.

The Bank has standard policies and procedures for managing each of its divisions, departments and branches so as to minimize loss through a framework which requires all units to identify, assess, monitor and control operational risk. All standard policies and procedures are subject to review and approval by the Board of Directors.

The Group manages operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorisation of transactions and regular, systematic reconciliation and monitoring of transactions. This control structure is complemented by independent and periodic reviews by the Bank's internal audit department.

c. Operational risk (continued)

The Bank follows the Emirates Bank group policy in relation to compliance with the Office of Foreign Assets Control (OFAC) regulations which are in line with international practices and guidelines. The Bank maintains a "restricted customer" database which is checked when prospective customers of the Bank are initially assessed. This database is linked to the OFAC list of sanctioned individuals as updated from time to time.

The Group has implemented the following processes to proactively monitor and manage operational risks:

- For the assessment of any operational risk of a new or amended product or process prior to its implementation, the Group established the Control Risk Self Assessment (CRSA) process. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives.
- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analyzing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units, i.e. where these events are encountered. The operation risk management function supports the respective units in the analysis of operational risk events and provides Group-wide reporting on these events.
- IT Security processes ensure confidentiality, integrity and availability of Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Group operational risk function ensures that security processes are integrated with strategic and operational planning processes to secure the organization's mission.
- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy. The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

d. Liquidity risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management:

To guard against this risk, the Group has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Liquidity is managed by the Treasury department under guidance from the ALCO, and is monitored using short-term cash-flow reports and medium-term maturity mismatch reports. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. They do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

The maturity profile of the Group's assets and liabilities is monitored by management to ensure adequate liquidity is maintained.

Liquidity risk monitoring:

All funded liquidity risk positions are monitored and evaluated by Group risk to identify mismatches of future cash inflows and corresponding maturity of liabilities over the short term and by major currencies.

The Group ALCO reviews the funding capacity, and its sensitivity to any key event, based on the judgment of Group Treasury that is responsible for maintaining diversified funding sources within capital and money markets.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. The Group's approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times. The Group ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis;
- Varied funding programs; and
- Investor diversification.

Liquidity risk mitigation

The ALCO, in conjunction with Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The ALCO, in line with the best practices, recognises that users and providers of liquidity as a resource should be incentivized an equitable and transparent manner. This is achieved through the Funds Transfer Pricing (FTP) system which is aligned to charge/compensate for liquidity of the underlying assets or structural nature of underlying liabilities.

d. Liquidity risk mitigation (continued)

MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

2012	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS:						
Cash and balances with UAE Central Bank	2,004,695	-	-	-	-	2,004,695
Due from banks	6,679,115	570,148	-	3,673,000	-	10,922,263
Financing receivables	3,858,005	902,570	4,103,811	3,482,369	7,478,716	19,825,471
Investments	158,579	415,705	1,189,923	894,751	252,423	2,911,381
Other financial assets	93,380	-	-	-	-	93,380
TOTAL ASSETS	**12,793,774**	**1,888,423**	**5,293,734**	**8,050,120**	**7,731,139**	**35,757,190**
LIABILITIES:						
Customers' accounts	(10,584,442)	(6,563,290)	(8,525,452)	-	-	(25,673,184)
Due to banks	(446,433)	(2,577,531)	-	-	-	(3,023,964)
Sukuk payable	-	-	-	3,673,000	-	3,673,000
Other financial liabilities	(581,046)	-	-	-	-	(581,046)
Zakat payable	(3,291)	-	-	-	-	(3,291)
Investment wakala	-	-	-	(1,081,872)	-	(1,081,872)
TOTAL LIABILITIES	**(11,615,212)**	**(9,140,821)**	**(8,525,452)**	**2,591,128**	**-**	**(26,690,357)**
Liquidity surplus/(deficit)	**1,178,562**	**(7,252,397)**	**(3,231,718)**	**10,641,248**	**7,731,139**	**9,066,833**
Cumulative liquidity surplus/(deficit)	**1,178,562**	**(6,073,836)**	**(9,305,554)**	**1,335,694**	**9,066,833**	

The Group is also exposed to financial commitments disclosed in note 20 to the financial statements.

d. Liquidity risk mitigation (continued)

MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES (continued)

2011	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS:						
Cash and balances with UAE Central Bank	1,195,167	-	-	-	-	1,195,167
Due from banks	2,944,353	1,938,384	-	-	-	4,882,737
Financing receivables	1,660,188	1,162,959	3,773,436	2,278,074	4,094,384	12,969,041
Investments	24,980	925,080	815,446	432,085	-	2,197,591
Other financial assets	40,345	-	-	-	-	40,345
TOTAL ASSETS	**5,865,033**	**4,026,423**	**4,588,882**	**2,710,159**	**4,094,384**	**21,284,881**
LIABILITIES:						
Customers' accounts	(7,315,784)	(5,789,949)	(4,019,949)	-	-	(17,125,152)
Due to banks	(1,343,99)	-	-	-	-	(1,343,999)
Other financial liabilities	(163,826)	-	-	-	-	(163,826)
Zakat payable	(1,053)	-	-	-	-	(1,053)
Investment wakala	-	-	-	(1,081,872)	-	(1,081,872)
TOTAL LIABILITIES	**(8,824,662)**	**(5,789,949)**	**(4,019,419)**	**(1,081,872)**	**-**	**(19,715,979)**
Liquidity surplus/(deficit)	**(2,959,629)**	**(1,763,526)**	**569,463**	**1,628,287**	**4,094,384**	**1,568,979**
Cumulative liquidity surplus/(deficit)	**(2,959,629)**	**(4,723,155)**	**(4,153,692)**	**(2,525,405)**	**1,568,979**	

The Group is exposed to financial commitments disclosed in note 20 to the financial statements.

d. Liquidity risk mitigation (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

As at 31 December 2012	Carrying amount AED'000	Gross nominal outflows AED'000	Within 3 months AED'000	3 months to 1 year AED'000	1 year to 3 years AED'000	3 years to 5 years AED'000	Over 5 years AED'000
FINANCIAL LIABILITES:							
Customers' accounts	(25,673,184)	(67,223)	(15,436)	(41,336)	(10,451)	-	-
Due to banks	(3,023,964)	(3,023,964)	(3,023,964)	-	-	-	-
Investment wakala	(1,081,872)	(1,248,210)	(12,171)	(40,570)	(1,195,469)	-	-
Sukuk payable	(3,673,000)	(4,369,342)	(40,678)	(122,035)	(325,428)	(3,881,200)	-
	(33,452,020)	**(8,708,739)**	**(3,092,250)**	**(203,942)**	**(1,531,347)**	**(3,881,200)**	-

e. Legal risk

The Group has full-time legal advisor and is actively supported at Group level Legal department who deal, with both routine and more complex legal cases. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate.

f. Capital Adequacy Ratio

The Group's capital adequacy ratio is regularly monitored by ALCO and managed by the Group risk, following table shows the details of calculating capital adequacy ratio as at 31 December 2012 and 31 December 2011:

	2012 AED'000	2011 AED'000
TIER I CAPITAL		
Share capital	2,430,422	2,430,422
Statutory reserve	214,987	206,865
General reserve	120,766	112,644
Accumulated losses	(254,059)	(315,744)
Non-controlling interest	43,276	43,384
Total tier I capital	**2,555,392**	**2,477,571**
TIER II CAPITAL		
Investment Wakala from the Ministry of Finance	865,498	1,081,872
Portfolio impairment provisions	607,539	343,988
Fair value reserves	66,632	515
Total tier II capital	**1,539,669**	**1,426,375**
Tier II eligible capital	**1,310,823**	**1,344,380**
CAPITAL BASE	**3,866,215**	**3,821,951**
RISK WEIGHTED ASSETS		
Risk weighted assets	31,599,023	20,887,416
	31,599,023	**20,887,416**
CAPITAL ADEQUACY RATIO (BASEL II)	**12.24%**	**18.30%**

As explained in note 4 to the financial statements, Group has acquired certain assets and liabilities of Dubai Bank PJSC which has resulted in increase in risk weighted assets of the Group and consequently reducing overall capital adequacy ratio (CAR). Shareholders of the Bank in extra ordinary general meeting held on 23rd December 2012 have approved increase in authorized share capital by AED 2,000,000,000 and paid up share capital by AED 1,500,000,000. After completion of legal formalities and injection of capital, the CAR of the group will be improved substantially. Had the money received before 31st December 2012 the CAR of the group would have been 16.58%.

35. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

2012	GCC AED'000	Other Middle East AED'000	Europe AED'000	North America AED'000	Asia AED'000	Far East AED'000	Others AED'000	Total AED'000
ASSETS:								
Cash and balances with UAE Central Bank	2,004,695	-	-	-	-	-	-	2,004,695
Due from banks	10,648,355	710	140,181	131,995	845	-	177	10.922.263
Financing receivables	19,573,747	-	121.631	-	130,093	-	-	19,825,471
Investments	2,269,534	25,221	-	-	597,101	19,525	-	2,911,381
Investment properties	1,119,133	-	-	-	-	-	-	1,119,133
Customer acceptances	124,831	-	-	-	-	-	-	124,831
Prepayments and other assets	247,195	-	-	-	-	-	-	247,195
Property and equipment	108,791	-	-	-	-	-	-	108,791
TOTAL ASSETS	**36,096,281**	**25,931**	**261,812**	**131,995**	**728,039**	**19,525**	**177**	**37,263,760**
LIABILITIES:								
Customers' accounts	25,351,453	98,775	76,355	76,020	39,591	101	30,889	25,673,184
Due to banks	3,023,949	-	-	15	-	-	-	3,023,964
Sukuk payable	3,673,000	-	-	-	-	-	-	3,673,000
Customer acceptances	124,831	-	-	-	-	-	-	124,831
Other liabilities	1,061,594	-	-	-	-	-	-	1,061,594
Zakat payable	3,291	-	-	-	-	-	-	3,291
Investment wakala	1,081,872	-	-	-	-	-	-	1,081,872
TOTAL LIABILITIES	**34,319,990**	**98,775**	**76,355**	**76,035**	**39,591**	**101**	**30,889**	**34,641,736**
Shareholders' equity	-	-	-	-	-	-	-	2,578,748
Non-Controlling Interest	-	-	-	-	-	-	-	43,276
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,622,024**

35. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES (continued)

2011	GCC AED'000	Other Middle East AED'000	Europe AED'000	North America AED'000	Asia AED'000	Far East AED'000	Others AED'000	Total AED'000
ASSETS:								
Cash and balances with UAE Central Bank	1,195,167	-	-	-	-	-	-	1,195,167
Due from banks	4,819,493	-	60,129	-	803	-	2,312	4,882,737
Financing receivables	12,965,598	-	3,443	-	-	-	-	12,969,041
Investments	1,467,440	126,647	-	-	603,504	-	-	2,197,591
Investment properties	1,111,317	-	-	-	-	-	-	1,111,317
Customer acceptances	90,096	-	-	-	-	-	-	90,096
Prepayments and other assets	195,293	-	-	-	-	-	-	195,293
Property and equipment	98,918	-	-	-	-	-	-	98,918
TOTAL ASSETS	**21,943,322**	**126,647**	**63,572**	**-**	**604,307**	**-**	**2,312**	**22,740,160**
LIABILITIES:								
Customers' accounts	16,789,740	5,799	146,242	26,640	38,282	-	118,449	17,125,152
Due to banks	1,342,290	-	-	22	-	-	1,687	1,343,999
Customer acceptances	90,096	-	-	-	-	-	-	90,096
Other liabilities	619,902	-	-	-	-	-	-	619,902
Zakat payable	1,053	-	-	-	-	-	-	1,053
Investment wakala	1,081,872	-	-	-	-	-	-	1,081,872
TOTAL LIABILITIES	**19,924,953**	**5,799**	**146,242**	**26,662**	**38,282**	**-**	**120,136**	**20,262,074**
Shareholders' equity	-	-	-	-	-	-	-	2,434,702
Non-Controlling Interest	-	-	-	-	-	-	-	43,384
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,478,086**

36. COMPARATIVE FIGURES

Certain prior year balances have been reclassified to conform to the current year.

LIST OF DISTRICT BRANCHES

BRANCHES	Branch Location	P. O. BOX	TELEPHONENUMBER
Alkhaleej Centre	Bur Dubai - Opposite Al Ain Centre in AlMankhool Rd. Jumbo electronic Bldg 1st floor	6564, Dubai	04 355 0992
Bur Dubai	Bank St.next to Sun & Sand sports shop nearest Land mark Al Musalla Tower		04 359 7888
Dubai Mall	Dubai Mall Lower Ground Level in between DU office and Standard Chartered bank. Park at Grand Parking "K" and walk towards Waitross Supermarket		04 382 8010
Dubai Investment Park	In Dubai Investment Park Bldg.		04 885 5005
Diyafah	Bur Dubai- Al Dhiyafa st. opposite DUNE Centre		04 398 5478
Oud Metha	Bur Dubai - Opposite American Hospital		04 337 3337
Umm Suqueim	Jumeira Beach Rd, Jumeira 3, beside Reem Al Bawadi resturant		04 394 0568
Al Mina	Bur Dubai - Al Mina Rd. after Emirates Patrolum station, take the service road after the first signal light		04-3455554/04-3454422
Main Branch	Al Gurg Tower 2, Riggat Al Buteen, Nearest Landmark: Hilton Creek Hotel	6564, Dubai	04 213 1660
Al Riqqa	Omar Bin Al Khattab Street,Nearest Landmark: ibis Hotel	6564, Dubai	04 224 8442
Al Twar	Al Nahda Road (Al Qusais 2), Nearest Landmark: Al Twar Center	6564, Dubai	04 702 3880
Nad Al Hamar	Bel Remaitha Club Building, Show Rooms , S-8 & S-9,Nad Al Hamar Area, Al Rebat St.	6564, Dubai	04 284 5999
Al Garhoud	Sunshine Building, Next to Al Tayer Showroom	6564, Dubai	04 224 8442
Al Twar	Al Nahda Road (Al Qusais 2), Nearest Landmark: Al Twar Center	6564, Dubai	04 702 3880
Abu Hail	Show Room # 2, Khalaf Al Nayeli Building, Plot # 10/1, Hor Al Anz East, Near Abu Hail Centre, Abu Hail Road.	6564, Dubai	04 266 8566
Al Mizhar	ASWAQ Centre, Near Al Mizhar Mall, Al Mizhar 1, Dubai	6564, Dubai	04 284 5799
Dubai Festival City	Dubai Festival centre, Opp. to Ikea, beside Hyper panda, Level 1	6564, Dubai	04 373 3201
Al Mamzar	Arabila Bldg, Gound Level, Next to Grand Service Station	6564, Dubai	04 622 444
Dubai Al Twar	Dubai Municipality Bldg, Ground level, Opp. to Al Twar Center	6564, Dubai	04 257 5983
Business Village	Business Village Bldg, Block A,Ground Level, next to Clock Tower	6564, Dubai	04 236 7878
Land Department	Dubai Land Department Bldg, Ground Level Baniyas Street, Opp. Dubai Chamber of commerce	6564, Dubai	04 221 5301
Sheikh Zayed	Showroom 2, Al Wasl Tower	6564, Dubai	04 331 2020
Jebel Ali	Banking Complex, JAFZA Main Gate, Jebel Ali	6564, Dubai	04 881 1133

BRANCHES	Branch Location	P. O. BOX	TELEPHONE NUMBER
Media City	Show Room # 16, Business Central Towers, Media City, Tecom	6564, Dubai	04 438 0200
Al Qouz	KHALIFA BIN DISMAL BUILDING, Show Rooms # 1, ALQUOZ 3 Area	6564, Dubai	04 380 9952
Convention Centre	Would Trade Centre, exhibition hall 1	6564, Dubai	04 383 0020 /04 383 0022
Jumairah beach	Jumairah beach Residents Branch, Amwaj 3	6564, Dubai	04 423 3777
Jebel Ali (Jafza)	Gate No. 04, Jafza 16	6564, Dubai	04 887 2555
SZD	Al Khrabash Building	6564, Dubai	04 343 8882
Abu Dhabi	Sheikh Rashid Bin Saeed Al Maktoum Street	46077, Abu Dhabi	02 446 4000
Al Khalidiya	Street No. 26, intersecting with Zayed the 1st Street - opposite to Khalidiya Mall	108330, Abu Dhabi	02 667 9000
Khalifa City	Villa # 104, Sector SE-02, Khalifa City "A", Abu Dhabi	46077, Abu Dhabi	02 557 1741
Tourist Club Area	Al Zarooni Building, Al Meena Street 10 - opposite to City Terminal	46077, Abu Dhabi	02 644 8820
Abu Dhabi Mall	Opposite to city Terminal	59888, Abu Dhabi	02 644 4500
Abu Dhabi Corniche	Liwa street - opposite to central Souq - beside ADCB	46077, Abu Dhabi	02 616 0888
Al Ain	Jawazat Street, near Sheikh Salama Mosque	15095, Al Ain	03 751 1159
Al Mutaradh	Show Rooms # 14, 15 & 16 Arabia Centre, Al Mutaradh Area	15095, Al Ain	03 755 9840
Al Ain Souq	Aoud Al Touba street - Between Mashreq Bank & First Gulf Bank	15095, Al Ain	03 751 1112
Corniche	EIB Tower, Buheira Cornich Al Majaz Area Sharjah Ground Floor	5169, Sharjah	06 544 4555
Sharjah	Al Arooba bank street, Nearest landmark: Rola square	5169, Sharjah	06 568 6166
Sharjah Pay Office	Al Meena street - Sharjah	5169, Sharjah	06 528 2248
Sharjah (Crystal Plaza)	Buhaira Corniche road, Crystal Plaza Tower	5169, Sharjah	06 574 6664
Muwaileh	Maleeha street Near National Paint Industrial area # 15 Dr. Faisal Al Qasimi BLDG	5169, Sharjah	06 566 3555/4656
Halawan	Wasit street Shk Isam Building Ground floor Halwaan	67621, Sharjah	06 566 3555/4656
Qasimiyah	King Abdulaziz street Al Qasimiya ,Al otaiba BLDG	67622-Sharjah	06 507 6666
Ajman	ShkKhalifa Bin Zayed Street Nearest Landmark: Next Lebanon spring Bakery	6688, Ajman	06 746 3338/06 746 4000
QFS - Umm Al Quwain	Nearest landmark: Umm Al QuwainBrodcasting station King Faisal Road	315,Umm Al Quwain	06 764 6112
Ras Al Khaimah	Emirates Islamic Bank tower, Grounfloor, Al Muntaser Road, Al Nakheel area	5198, Ras Al Khaimah	07 226 0363
Fujairah	Shk Ahmed Bin Abdulla Street Nearest Landmark: Choitram Super Market	1472, Fujairah	09 223 5666
Khorfakkan	Corniche street	18969, Khorfakan	09 237 1122

P.O. Box: 6564, Dubai, United Arab Emirates
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