EMIRATES NBD PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

بنك الإمارات دبي الوطني
Emirates NBD

EMIRATES NBD PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of Emirates NBD PJSC ("the Bank") and its subsidiaries (collectively known as "the Group") for the year ended 31 December 2012.

The Bank was incorporated in the UAE on 16 July 2007, pursuant to the approval from the Central Bank of the UAE on 3 July 2007, to grant the Bank a banking licence.

The financial statements are being prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Preparation of Financial Statements

The Group consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB) and applicable requirements of the laws of the U.A.E.

Financial Commentary

The Group reported a consolidated profit (attributable to equity holders) of AED 2,554 million for the year 2012, which represent an increase of 1% over 2011. In response to the current economic climate, the Group has continued to focus on:

- Strengthening its core capital, liquidity and funding positions;
- Pursuing the growth and expansion strategy in selected markets;
- Enhancing operating efficiency, whilst continuing its investment in infrastructure technology and governance;
- Continued to further enhance the employee proposition through talent/leadership development as well as performance and retention management.

The Group has achieved an improvement of 3% in the total income in 2012 compared to 2011, which reflects the resilience of its earnings power in challenging conditions and the strength of the customer franchise.

The global downturn continues to impact the consolidated profits in the form of increased provisions.

Group Earning per Share remained unchanged to AED 0.41(2011: AED 0.41).

The Group achieved a return on average tangible equity of 9.9% (2011: 10.2%) and return on average total assets of 0.86% (2011: 0.87%).

Equity Holders' Funds

Total equity holders' funds as at the end of 2012 stands at AED 26,701 million (excluding Tier 1 capital notes, goodwill and intangibles).

Dividends and Proposed Appropriations

The Directors have recommended a cash dividend of 25% to be paid out of the 2012 profit.

The Directors also propose the following appropriations from retained earnings:

		AED million
Retained earnings as at 01 January 2012		7,587.5
Group profit for the year (attributable to equity holders)		2,554.0
Retained earnings available for appropriation		10,141.5
(a)	Transfer to Legal and statutory reserves	(255.4)
(b)	2011 Cash dividend of 20% paid during 2012	(1,110.4)
(c)	Interest on Tier 1 Capital Notes	(262.3)
(d)	Directors' fees for 2012 *	(8.2)
Balance of retained earnings as at 31 December 2012		8,505.2

* Directors' fees include fees paid to directors of Emirates NBD.

Attendance of Directors at Board/ Board Committee meetings during 2012

The Board of Directors comprises of the following members:

H.H. Shaikh Ahmed Bin Saeed Al Maktoum	Chairman
Mr. Hesham Abdulla Al Qassim	Vice Chairman
H.E. Khalid Juma Al Majid	Director
H.E. Abdulla Sultan Mohamed Al Owais	Director
Mr. Hussain Hassan Mirza Al Sayegh	Director
Mr. Buti Obaid Buti Al Mulla	Director
Mr. Shoaib Mir Hashim Khoory	Director
Mr. Mohamed Hamad Obaid Khamis Al Shehi	Director
Mr. Mohamed Hadi Ahmad Al Hussaini	Director

Emirates NBD Board (ENBD) **Total No. of Meetings: 6** **Total Duration: 11:30 hrs**

Emirates NBD Board EXCO

Mr. Hesham Abdulla Al Qassim (Chairman of the Committee)
H.E. Abdulla Sultan Mohamed Al Owais (Member)
Mr. Shoaib Mir Hashim Khoory (Member)
Mr. Mohamed Hamad Obaid Al Shehi (Member)
Mr. Mohamed Hadi Ahmad Al Hussaini (Member)

Total No. of Meetings: 7 **Total Duration: 05:30 hrs**

ENBD Board Audit Committee (BAC)

Mr. Hussain Hassan Mirza Al Sayegh (Chairman of the Committee)
Mr. Shoaib Mir Hashim Khoory (Member)
Mr. Mohamed Hamed Obaid Al Shehi (Member)
Mr. Mohamed Hadi Ahmad Al Hussaini (Member)

Total No. of meetings : 4 **Total Duration : 07:45 hrs**

ENBD Board Nomination & Remuneration Committee (BN&RC)

Mr. Buti Obaid Buti Al Mulla (Chairman of the Committee)

H.E. Khalid Juma Al Majid (Member)

H.E. Abdulla Sultan Mohamed Al Owais (Member)

Mr. Mohamed Hadi Ahmad Al Hussaini (Member)

Total No. of meetings : 5 **Total Duration : 05:45 hrs**

ENBD Risk Committee (BRC)

Mr. Hesham Abdulla Al Qassim (Chairman of the Committee)

H.E. Abdulla Sultan Mohamed Al Owais (Member)

Mr. Hussain Hassan Mirza Al Sayegh (Member)

Mr. Buti Obaid Buti Al Mulla (Member)

Total No. of meetings : 5 **Total Duration : 07:30 hrs**

ENBD Board Credit & Investment Committee (BCIC)

Mr. Hesham Abdulla Al Qassim (Chairman of the Committee)

H.E. Abdulla Sultan Mohamed Al Owais (Member)

Mr. Shoaib Mir Hashim Khoory (Member)

Mr. Mohamed Hamad Obaid Al Shehi (Member)

Mr. Mohamed Hadi Ahmad Al Hussaini (Member)

Total No. of meetings : 36 **Total Duration : 44:20 hrs**

Auditors:
KPMG were appointed as auditors of the Emirates NBD Group for 2012 financial year in the Annual General Meeting held on 25 March 2012.

On behalf of the Board

Chairman
Dubai, UAE
30 January 2013

Independent Auditor's Report

The Shareholders
Emirates NBD PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Emirates NBD PSJC ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income (comprising a consolidated income statement and a separate consolidated statement of comprehensive income), changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Bank and the UAE Federal Law No. 8 of 1984 (as amended).

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the consolidated financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law (8) of 1984 (as amended), Union Law No. 10 of 1980 and the relevant Articles of Association of the Bank; the proper financial records have been kept by the Bank; and the contents of the Chairman's 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 Bank or its financial position.

Name : **Vijendra Nath Malhotra**
Registration No. : 48B
KPMG
Dubai
United Arab Emirates

30 JAN 2013

بنك الإمارات دبي الوطني
Emirates NBD

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Notes	2012 AED 000	2011 AED 000
ASSETS			
Cash and deposits with Central Bank	4	30,771,862	21,526,137
Due from banks	5	17,478,447	19,851,579
Loans and receivables	6	186,865,840	176,815,034
Islamic financing receivables	8	31,295,568	26,325,279
Trading securities	9	1,220,872	588,679
Investment securities	10	14,265,483	15,883,727
Investments in associates and joint ventures	12	2,080,157	2,041,459
Positive fair value of derivatives	37	2,218,382	2,398,874
Investment properties	13	1,138,731	1,130,916
Customer acceptances	42	6,301,961	3,777,759
Property and equipment	14	2,469,156	2,576,990
Goodwill and intangibles	15	5,751,018	5,831,018
Other assets	16	6,438,874	5,865,935
TOTAL ASSETS		**308,296,351**	**284,613,386**
LIABILITIES			
Due to banks	17	22,168,827	26,105,233
Customer deposits	18	176,318,158	154,013,407
Islamic customer deposits	19	37,610,289	39,300,646
Repurchase agreements with banks	20	730,873	2,519,660
Debt issued and other borrowed funds	21	17,190,792	15,636,867
Sukuk payable	7	3,673,000	1,239,181
Negative fair value of derivatives	37	2,034,144	2,068,771
Customer acceptances	42	6,301,961	3,777,759
Other liabilities	22	5,769,731	4,970,808
TOTAL LIABILITIES		**271,797,775**	**249,632,332**
EQUITY			
Issued capital	23	5,557,775	5,557,775
Treasury shares		(46,175)	(46,175)
Tier I capital notes	24	4,000,000	4,000,000
Share premium reserve	23	12,270,124	12,270,124
Legal and statutory reserve	25	2,706,815	2,451,405
Other reserves	25	2,869,533	2,869,533
Fair value reserve	25	593,823	248,289
Currency translation reserve	25	(4,793)	(3,686)
Retained earnings		8,505,205	7,587,509
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		**36,452,307**	**34,934,774**
Non-controlling interest		46,269	46,280
TOTAL EQUITY		**36,498,576**	**34,981,054**
TOTAL LIABILITIES AND EQUITY		**308,296,351**	**284,613,386**

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 4.

Chairman	Vice Chairman	Chief Executive Officer

30 JAN 2013

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 AED 000	2011 AED 000
Interest income	26	9,236,309	10,151,445
Interest expense	26	(2,977,163)	(3,436,433)
Net interest income		**6,259,146**	**6,715,012**
Income from Islamic financing and investment products	27	1,325,163	1,281,565
Distribution to depositors and profit paid to Sukuk holders	28	(672,669)	(738,318)
Net income from Islamic financing and investment products		**652,494**	**543,247**
Net interest income and income from Islamic financing and investment products net of distribution to depositors		**6,911,640**	**7,258,259**
Fee and commission income		1,877,459	1,856,760
Fee and commission expense		(146,283)	(107,700)
Net fee and commission income	29	**1,731,176**	**1,749,060**
Net gain/(loss) on trading securities	30	70,550	(139,635)
Other operating income	31	1,498,491	1,062,418
Total operating income		**10,211,857**	**9,930,102**
General and administrative expenses	32	(3,668,812)	(3,507,734)
Amortisation of intangibles	15	(80,000)	(93,860)
Operating profit before impairment		**6,463,045**	**6,328,508**
Net impairment loss on financial assets	33	(4,003,908)	(4,969,843)
Net impairment loss on non-financial assets		-	(8,121)
Operating profit after impairment		**2,459,137**	**1,350,544**
Impairment and share of profit / (loss) of associates and joint ventures	12	110,119	(653,992)
Gain on disposal of 49% stake in subsidiary and fair value gain on retained interest in joint venture	11	-	1,812,798
Taxation charge		(15,237)	(25,867)
Group profit for the year		**2,554,019**	**2,483,483**
Attributable to:			
Equity holders of the Group		2,554,030	2,531,023
Non-controlling interest		(11)	(47,540)
Group profit for the year		**2,554,019**	**2,483,483**
Earnings per share	36	**0.41**	**0.41**

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.
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GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 AED 000	2011 AED 000
Group profit for the year	2,554,019	2,483,483
Items that may be reclassified subsequently to Income statement:		
Other comprehensive income		
Cash flow hedges:		
- Effective portion of changes in fair value	23,023	17,162
Fair value reserve (available-for-sale financial assets):		
- Net change in fair value	688,231	288,578
- Net amount transferred to income statement	(365,720)	(163,350)
Currency translation reserve	(1,107)	(3,686)
Other comprehensive income for the year	344,427	138,704
Total comprehensive income for the year	**2,898,446**	**2,622,187**
Attributable to:		
Equity holders of the Bank	2,898,457	2,669,727
Non-controlling interest	(11)	(47,540)
Total recognised income for the year	**2,898,446**	**2,622,187**

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.
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GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 AED 000	2011 AED 000
OPERATING ACTIVITIES		
Group profit for the year	2,554,019	2,483,483
Adjustment for non cash items		
Impairment loss on loans and receivables	3,180,719	4,130,570
Impairment loss on Islamic financing receivables	673,497	564,165
Impairment loss on investment securities	119,451	221,514
Interest unwind on impaired loans	(86,423)	(106,952)
Amortisation of fair value loss/(gain)	58,554	(19,524)
Fair value gain on debt issued and borrowed funds	-	(160,000)
Premium discount on Investment securities	43,034	35,965
Unrealised foreign exchange gain	(186,647)	(61,758)
Impairment loss on investment in associates	-	676,000
Amortisation of intangibles	80,000	93,860
Depreciation of property and equipment	300,799	289,500
Impairment loss on non-financial assets	-	8,121
Fixed assets written-off	-	29,365
Share of gain of associates and joint ventures	(110,119)	(22,008)
Unrealised (gain)/loss on investments	(88,809)	206,450
Gain on disposal of 49% stake in subsidiary and fair value gain on retained interest in joint venture	-	(1,812,798)
Revaluation loss on investment properties	27,280	288,799
Operating profit before changes in operating assets and liabilities	**6,565,355**	**6,844,752**
Increase in interest free statutory deposits	(1,685,333)	(1,911,699)
(Increase)/decrease in certificate of deposits with Central Bank maturing after 3 months	(550,000)	18,550,000
Increase in amounts due from banks maturing after 3 months	(1,410,946)	(2,753,079)
(Decrease)/increase in amounts due to banks maturing after 3 months	(219,272)	1,797,988
Net change in other liabilities/other assets	345,816	(2,682,814)
Net change in fair value of derivatives	168,888	163,272
Increase/(decrease) in customer deposits (including Islamic deposits)	20,614,394	(6,657,955)
Increase in loans and receivables	(13,145,102)	(3,835,038)
Increase in Islamic financing receivables	(5,643,786)	(7,669,533)
Net cash flows from operating activities	**5,040,014**	**1,845,894**
INVESTING ACTIVITIES		
(Increase)/decrease in trading securities (net of fair value movements)	(545,603)	631,178
Decrease/(increase) in investment securities (net of fair value movements)	1,781,355	(1,746,575)
Decrease in investments in associates and joint ventures	69,459	13,766
Sale of investment in subsidiary	-	1,551,300
Acquisition of Investment Properties	(35,095)	(22,716)
Proceeds from sale of Investment Properties	-	1,118
Additions to property and equipment (net)	(192,965)	(467,116)
Net cash flows from/(used in) investing activities	**1,077,151**	**(39,045)**
FINANCING ACTIVITIES		
(Decrease)/increase in deposits under repurchase agreements	(1,788,787)	1,627,351
Increase/(decrease) in debt issued and other borrowed funds	1,553,925	(3,778,942)
Increase/(decrease) in Sukuk borrowing	2,433,819	(28,004)
Interest on tier I capital notes	(262,300)	(261,583)
Dividends paid	(1,110,374)	(1,111,555)
Net cash flows from/(used in) financing activities	**826,283**	**(3,552,733)**
Increase/(decrease) in cash and cash equivalents (refer Note 46)	**6,943,448**	**(1,745,884)**

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بنك الإمارات دبي الوطني
Emirates NBD

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP											
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium reserve (a)	Legal and statutory reserve (c)	Other reserves (c)	Fair value reserve (c)	Currency translation reserve (c)	Retained earnings	Total	Non-controlling interest	Group total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2012	5,557,775	(46,175)	4,000,000	12,270,124	2,451,405	2,869,533	248,289	(3,686)	7,587,509	34,934,774	46,280	34,981,054
Total comprehensive income for the year	-	-	-	-	-	-	345,534	(1,107)	2,554,030	2,898,457	(11)	2,898,446
Interest on tier I capital notes	-	-	-	-	-	-	-	-	(262,300)	(262,300)	-	(262,300)
Dividends paid	-	-	-	-	-	-	-	-	(1,110,374)	(1,110,374)	-	(1,110,374)
Transfer to reserves	-	-	-	-	255,410	-	-	-	(255,410)	-	-	-
Directors' fees (refer Note 34)	-	-	-	-	-	-	-	-	(8,250)	(8,250)	-	(8,250)
Balance as at 31 December 2012	5,557,775	(46,175)	4,000,000	12,270,124	2,706,815	2,869,533	593,823	(4,793)	8,505,205	36,452,307	46,269	36,498,576

In accordance with the Ministry of Economy interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity.

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on page 4.

Notes:

(a) For further details refer to Note 23
(b) For further details refer to Note 24
(c) For further details refer to Note 25

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP											
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium reserve (a)	Legal and statutory reserve (c)	Other reserves (c)	Fair value reserve (c)	Currency translation reserve (c)	Retained earnings	Total	Non-controlling interest	Group total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2011	5,557,775	(46,175)	4,000,000	12,270,124	2,198,205	2,869,533	105,899	-	6,700,409	33,655,770	93,820	33,749,590
Total comprehensive income for the year	-	-	-	-	-	-	142,390	(3,686)	2,531,023	2,669,727	(47,540)	2,622,187
Interest on tier I capital notes	-	-	-	-	-	-	-	-	(261,583)	(261,583)	-	(261,583)
Dividends paid	-	-	-	-	-	-	-	-	(1,111,555)	(1,111,555)	-	(1,111,555)
Transfer to reserves	-	-	-	-	253,200	-	-	-	(253,200)	-	-	-
Directors' fees (refer Note 34)	-	-	-	-	-	-	-	-	(17,585)	(17,585)	-	(17,585)
Balance as at 31 December 2011	5,557,775	(46,175)	4,000,000	12,270,124	2,451,405	2,869,533	248,289	(3,686)	7,587,509	34,934,774	46,280	34,981,054

In accordance with the Ministry of Economy interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity.

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.

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Notes:

(a) For further details refer to Note 23
(b) For further details refer to Note 24
(c) For further details refer to Note 25

1 CORPORATE INFORMATION

Emirates NBD PJSC, (the "Bank") was incorporated in the United Arab Emirates on 16 July 2007, under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Bank was incorporated principally to give effect to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"). The merger became effective from 16 October 2007, while the legal merger was completed on 4 February 2010. Post this date, EBI and NBD ceased to exist.

The consolidated financial statements for the year ended 31 December 2012 comprises of the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The Bank is listed on the Dubai Financial Market (TICKER: "EMIRATESNBD"). The Group's principal business activities are corporate banking, consumer banking, treasury and Islamic banking. The Bank's website is www.emiratesnbd.com. For details of activities of subsidiaries, refer to Note 40.

The registered address of the bank is Post Box 777, Dubai, United Arab Emirates ("UAE").

The parent company of the Group is Investment Corporation of Dubai, a company in which the Government of Dubai is the majority shareholder.

2 BASIS OF PREPARATION

(a) Statement of compliance:

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

The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These Group consolidated financial statements have been approved for issue by the Board of Directors on 30 January 2013.

(b) Basis of measurement:

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

- derivative financial instruments are measured at fair value;
- financial instruments classified as at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged;
- liabilities for cash settled share based payments are measured at fair value; and
- investment properties are measured at fair value.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

2 BASIS OF PREPARATION (continued)

(b) Basis of measurement: (continued):

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

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

(c) Principles of consolidation

(i) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies (generally accompanying a shareholding of more than one half of the voting rights) so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The list of the Group's subsidiary companies is shown in Note 40.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank with the exception of Emirates Financial Services PSC, an insignificant subsidiary, whose year end is 31 March and hence the Group uses their reviewed 12 months accounts as at 31 December. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(i) Subsidiaries (continued)

Basis of consolidation (continued)

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 3. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Upon 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 it 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.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(ii) Special Purpose Entities

Special Purpose Entities (SPEs) are entities that are created to accomplish a 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 rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
- 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 reassessed at each Balance Sheet date.

Information about the Group's securitisation activities is set out in Note 7.

(iii) Fund Management

The Group manages and administers funds on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management activity is set out in Note 48.

(iv) Fiduciary activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements (refer Note 49).

(v) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Bank.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(v) Transactions with non-controlling interests (continued)

Changes in the Group owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

(vi) Jointly controlled entities

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The consolidated financial statements include the Group's share of the total recognised gains and losses of its jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported as nil and recognition of losses is discontinued except to the extent of the Group's commitment (if any).

The carrying amounts of the jointly controlled entities are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The impairment loss is charged to income statement.

Upon loss of joint control, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the former joint venture entity upon loss of joint venture control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

(vii) Associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights. An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(vii) Associates (continued)

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associate is measured in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is shown on the face of the consolidated income statement.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the profit or loss.

The financial statements of the associates are prepared as of the same reporting date as for the Group. Where necessary, adjustments are made in the Group financial statements to align the accounting policies of the Associates in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value.

Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates and judgements

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. 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.

Significant items where the use of estimates and judgments are required are outlined below:

(i) Allowances for impairment of loans and receivables and Islamic financing receivables

The Group reviews its loans and receivables portfolio and Islamic financing receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans or Islamic financing receivables. 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 significant loans and receivables and Islamic financing receivables, the Group also makes a collective impairment allowance to recognise that at any reporting date, there will be an amount of loans and receivables and Islamic financing receivables which are impaired even though a specific trigger point for recognition of the loss has not yet been evidenced (known as the "emergence period').

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Impairment of available-for-sale investment securities

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 its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non-market factors.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Use of estimates and judgements (continued)

(iv) Impairment of goodwill

On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(v) Impairment loss on investment in associates and jointly controlled entities

Management reviews its share of investments in associates and jointly controlled entities to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and jointly controlled entities and choosing a suitable discount rate in order to calculate the present value of those cash flows.

(vi) Held-to-maturity investment securities

The Group follows the guidance of IAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity. In the event the Group fails to keep these investments to maturity other than for specific circumstances (those mentioned in Note 3(e)(i)1), it will be required to reclassify the entire class as available-for-sale and the Group will be prevented from classifying investment securities as held-to-maturity for the current and the following two financial years.

(vii) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Revenue recognition

Interest income and expense are recognised in the consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Interest income and expense presented in the consolidated income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest basis;
- interest on available-for-sale investment securities on an effective interest basis; and
- interest on held for trading securities on an effective interest basis.

Fee income is earned from a diverse range of services provided by the Group to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);

- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and

- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

Commission income is accounted for on an accrual basis. Dividend income is recognised when the Group's right to receive the dividend is established. Recoveries in respect of loans and receivables that have been identified as fully impaired are accounted for on a cash receipt basis.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Customer loyalty programme

The Group operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products sold and the points issued, with the proceeds allocated to the points being equal to their fair value. Fair value is determined by applying statistical techniques. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

For aspects where third party providers are used, the consideration allocated to the awards credits collected on behalf of the third party are charged to the income statement at the time of supplying the rewards.

(d) Property related income

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

(e) Financial instruments

(i) Classification

- Trading securities:

  Trading securities are initially recorded at fair value. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise. Interest earned and dividends received are included in interest income and other operating income respectively.

- Investment securities:

(1) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets, with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt instruments.

Held-to-maturity ("HTM") investments are carried at amortised cost (less impairment, if any).

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(i) Classification (continued)

- Investment securities (continued)

(2) Available-for-sale

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale (AFS) financial assets may be freely sold or hedged. All AFS financial assets are measured at fair value. The differences between cost and fair value is taken to the Statement of Other Comprehensive Income and recognised as a separate component in the statement of financial position, except in the case of impairment where the cumulative loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to the Statement of Other Comprehensive Income, is transferred to the income statement.

(3) Designated at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss in 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; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

- Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost (less impairment) and include:

- Originated loans and syndicated loans funded on origination; and
- Other debt securities acquired (purchased) by the Group either from the issuer or another source, provided that they are not quoted in an active market.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated at fair value through profit or loss or available-for-sale assets are recognised. Loans and receivables are recognised on the day they are transferred to or acquired by the Group.

(iii) Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any interest in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

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, repurchase transactions and asset-backed securitisations.

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.

(iv) Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(v) Embedded derivatives

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

(vi) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

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

(vii) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the Statement of Other Comprehensive Income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in the Statement of Other Comprehensive Income is recognized in the Income Statement.

(viii) Impairment

Impairment of loans and advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Individually assessed loans and advances

For all loans that are considered individually significant, the Group assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment. The criteria used by the Group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- decline in the realisable value of the security;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

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

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified impairment (Corporate loans)

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Collectively assessed loans and advances (continued)

Homogeneous groups of loans and advances (Consumer loans)

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable.

Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

The allowance on collective basis is calculated as follows:

When appropriate empirical information is available, the Group utilises roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

Write-off of loans and advances

Loans (and the related impairment allowance) are normally written off, in full, when there is no realistic prospect of recovery. Where loans are secured, this is after receipt of any proceeds from the realisation of security, if any.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Impairment of Available for sale securities

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the Group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Available-for-sale equity securities

Objective evidence of impairment for available-for sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

– for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value; and

– for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

(f) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the Group consolidated income statement. Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to currency translation reserve.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 years
Freehold improvements	10 years
Leasehold improvements*	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 years
Core banking software	7 years
Motor vehicles	3 years

*Leasehold improvements are depreciated over the period of lease or 7 years, whichever is lower.

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

(h) Inventory

Properties acquired in settlement of debt are held as inventory and are stated at lower of cost or net realisable value. Directly attributable costs incurred in the acquisition of inventory is included as part of cost of the inventory.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date.

(i) Income taxes and deferred taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be settled with the tax authorities.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income taxes and deferred taxation (continued)

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to realise or the liability is expected to settle.

Deferred tax assets are reviewed at the end of each year to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

(j) Investment properties

The Group holds certain properties as investments to earn rental income, for capital appreciation, or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in 'Other operating income' in the year in which they arise.

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

Transfers are made to investment properties when, and only when there is a change in use evidenced by ending of owner-occupation, commencement of an operating lease of a significant portion of the property to another party or ending of construction or development. Transfers are made from investment properties when and only when there is a change in use based on the business model.

(k) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the income statement.

(m) Hedging instruments

Hedging instruments include futures, forwards and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rates and currency risk.

Where there is a hedging relationship as defined by IAS 39 between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments (refer Note 3 (a) (ii)).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Hedging instruments (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
- Hedge of net investment in a foreign operation.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(i) Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivative is recognised in other comprehensive income within 'Cash flow hedges – fair value gains/(losses)'. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, then hedge accounting is discontinued prospectively, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Hedging instruments (continued)

(iii) Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in income statement. The amount recognised in other comprehensive income is reclassified to the income statement as an adjustment on disposal of the foreign operation.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances with the Central Bank of the UAE and balances with banks and financial institutions with an original maturity of three months or less, less balances due to banks and financial institutions with an original maturity of three months or less.

(o) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Group consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(p) Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(q) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Group consolidated income statement over the period of the borrowings using the effective interest method.

(r) Leases

The total payments made under operating leases, such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Islamic financing receivables

Islamic financing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These products are carried at amortised cost less impairment.

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

Istissna’a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement or substantially all the risks and returns related to the ownership.

Mudaraba

An agreement between two parties; wherein one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-Ul-Mal would bear the loss of his funds while the 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, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

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 return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Islamic financing receivables (continued)

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istissna'a

Istissna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istissna'a cost) are accounted for on a time proportion basis.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(t) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the Group consolidated income statement.

Acquisitions of non-controlling interest

Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Intangible assets (continued)

(i) Goodwill (continued)

Measurement

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit and loss account. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Capitalised software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is four years, except in case of core banking software which is 7 years.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Intangible assets (continued)

(iii) Other intangible assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite of indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangibles.

(u) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Assets held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be primarily recovered through a sale transaction that is highly probable to complete within one year from the date of classification, rather than through continuing use. Such assets and liabilities are not netted. In the period where an asset or liability is recognised for the first time as held for sale, these assets and liabilities are shown separately on the face of the statement of financial position. However, the statement of financial position for the comparative prior period presented is not restated.

These assets and liabilities held for sale are measured in line with the Group's accounting policies.

(w) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries,

(i) controls, is controlled by, or is under common control with, the Group;
(ii) has an interest in the Group that gives it significant influence over the Group; or
(iii) has joint control over the Group;

(b) the party is an associate;
(c) the party is a jointly-controlled entity;
(d) the party is a member of the key management personnel of the Group;
(e) the party is a close member of the family of any individual referred to in (a) or (d); or
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(x) Operating segments

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge.

The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 39.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) 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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) New standards and interpretations not yet effective (continued)

Standard	Description	Effective date (early adoption permitted)
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
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.

بنك الإمارات دبي الوطني
Emirates NBD

4 CASH AND DEPOSITS WITH CENTRAL BANK

	2012 AED 000	2011 AED 000
Cash	2,497,248	1,977,954
Interest free statutory and special deposits with Central Bank	14,318,851	12,633,518
Interest bearing placements with Central Bank	4,750,763	1,214,665
Interest bearing certificates of deposits with Central Bank	9,205,000	5,700,000
	30,771,862	21,526,137

The reserve requirements which are kept with the Central Bank of the UAE in AED and US Dollar, are not available for use in the Group's day to day operations and cannot be withdrawn without the Central Bank of the UAE's approval. The level of reserves required changes every month in accordance with the Central Bank of the UAE's directives as per circular no. 21/99 dated 22/11/1999.

5 DUE FROM BANKS

31 December 2012	Local AED 000	Foreign AED 000	Total AED 000
Time loans	2,121,487	9,452,543	11,574,030
Overnight, call and short notice	273,564	5,665,100	5,938,664
Gross due from banks	2,395,051	15,117,643	17,512,694
Specific allowances for impairment	-	(34,247)	(34,247)
	2,395,051	15,083,396	17,478,447

31 December 2011	Local AED 000	Foreign AED 000	Total AED 000
Time loans	4,444,590	7,224,693	11,669,283
Overnight, call and short notice	2,592,522	5,620,787	8,213,309
Gross due from banks	7,037,112	12,845,480	19,882,592
Specific allowances for impairment	-	(31,013)	(31,013)
	7,037,112	12,814,467	19,851,579

The average yield on these placements was 1.3% p.a. (2011: 1.5% p.a.)

6 LOANS AND RECEIVABLES

(a) By type	2012 AED 000	2011 AED 000
Overdrafts	84,326,516	70,427,807
Time loans	106,811,954	108,758,368
Loans against trust receipts	3,247,580	2,978,058
Bills discounted	2,777,797	2,180,705
Credit card receivables	3,196,867	2,860,660
Others	597,809	591,882
Gross loans and receivables	200,958,523	187,797,480
Other debt instruments	416,549	501,786
Total loans and receivables	201,375,072	188,299,266
Less: Allowances for impairment	(14,509,232)	(11,484,232)
	186,865,840	176,815,034
Total of impaired loans and receivables	**28,716,741**	**26,800,238**

(b) By segment	2012 AED 000	2011 AED 000
Corporate banking	168,058,136	157,986,782
Consumer banking	18,071,396	17,961,460
Treasury	171,000	307,151
Others	565,308	559,641
	186,865,840	176,815,034

6 LOANS AND RECEIVABLES (continued)

Movement in allowances for specific impairment	2012 AED 000	2011 AED 000
Balance as at 1 January	8,056,792	5,534,739
Allowances for impairment made during the year	3,890,138	2,916,509
Write back /recoveries made during the year	(522,057)	(266,384)
Amount transferred to Islamic financing	-	(8,393)
Interest unwind on impaired loans	(86,423)	(106,952)
Amounts written off during the year	(73,586)	(14,370)
Exchange and other adjustments	4,290	1,643
Balance as at 31 December	11,269,154	8,056,792
Movement in allowances for collective impairment		
Balance as at 1 January	3,427,440	1,946,995
Allowances for impairment made during the year	271,238	1,919,845
Write back made during the year	(458,600)	(439,400)
Balance as at 31 December	3,240,078	3,427,440
Total	14,509,232	11,484,232

7 LOANS SECURITISATION

(i) Incorporation of Emirates NBD Asset Finance Companies in Ireland and Cayman Islands for asset securitisation

On 8 June 2012, ENBD Asset Finance Company No.1 Limited and on 1 June 2012, ENBD Asset Finance Company No.2 Limited were incorporated under the respective Companies Law (Ireland and Cayman Islands) as Special Purpose Entities (SPEs). The principal activities of these companies are to purchase portfolios of loans through issuance of notes.

On 9 October 2012, the Group transferred corporate loans and receivables amounting to AED 1,876 million to ENBD Asset Finance Company No.1 Limited (incorporated under Ireland companies law). However, the Group has retained substantially all of the credit risk and rewards associated with the transferred assets and hence the Group continues to recognise these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 1,876 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost. Further, the Group through ENBD Asset Finance Company No.2 Limited (incorporated under Cayman Islands companies law), entered into a total return swap contract referencing these notes' liability, thereby retaining all the risks and rewards associated with the loan exposures.

Since the Group is exposed to a majority of ownership risks and rewards of SPEs, these SPEs are consolidated in compliance with SIC Interpretation 12-Consolidation-special purpose entities.

As at 31st December 2012, the corporate loans and receivables balance transferred to Ireland SPE is AED 1,876 million and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 1,876 million.

(ii) Incorporation of Emirates NBD Auto Finance Limited and Emirates NBD Auto Financing Limited for asset securitisation

On 10 September 2009, Emirates NBD Auto Finance Limited ("APC") was incorporated under the Companies (Jersey) Law, 1991 and registered in Jersey as a limited company. The principal activity of the Company is to purchase portfolios of loans through the issuance of notes.

On 10 September 2009, Emirates NBD Auto Financing Limited ("Repack") was incorporated under the Companies (Jersey) Law, 1991 and registered in Jersey as a limited company. The principal activity of the Company is to invest in notes and securities through the issuance of notes.

7 LOANS SECURITISATION (continued)

(ii) Incorporation of Emirates NBD Auto Finance Limited and Emirates NBD Auto Financing Limited for asset securitisation (continued)

On 10 August 2010, the Group transferred retail auto loans and receivables amounting to AED 968.5 million to APC (as at 31 December 2010). However, the Group has retained the credit risk associated with the transferred assets. Due to retention of the risks and rewards of the transferred assets, the Group continues to recognize these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 857 million, secured by these assets, was included under debt issued and other borrowed funds and is carried at amortised cost. Since the Group is exposed to majority of ownership risks and rewards of these special purpose entities (SPE), these SPEs are consolidated in compliance with SIC Interpretation 12 – Consolidation – special purpose entities.

As at 31 December 2012, the auto loans and receivables balance transferred to APC is AED 968 million [2011: AED 971 million] and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 810 million [2011: AED 907 million].

(iii) Consolidation of the Group's Tranche of Emblem Finance Company No. 2 Limited (multi-seller SPE) for asset securitisation

On 22 November 2010, the Group transferred corporate loans and receivables amounting to AED 2,193 million (as at 31 December 2010) to Emblem Finance Company No. 2 Limited (Multi-seller SPE). However, the Group has retained substantially all of the credit risk and rewards associated with the transferred assets and hence the Group continues to recognise these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 2,193 million, secured by these assets, was included under debt issued and other borrowed funds and is carried at amortised cost.

Since the Group is exposed to a majority of ownership risks and rewards of this section of the multi seller SPE, the Group's tranche in the SPE is consolidated in compliance with SIC Interpretation 12 – Consolidation – special purpose entities.

As at 31 December 2012, the corporate loans and receivables balance transferred to Multi-seller SPE is AED 677 million [2011: AED 881 million] and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 674 million [2011: AED 880 million].

(iv) Securitisation of Islamic Financing Receivables

During 2012, the Group through its Subsidiary, Emirates Islamic Bank, raised two tranches of US Dollar denominated medium term finance amounting to USD 500 million each (AED 3.7 billion) via a Sharia'a compliant sukuk financing arrangement. This medium term finance is carried at amortised cost.

The sukuks are listed on the London Stock Exchange. The terms of the arrangement include transfer of certain identified ijara assets of AED 3.7 billion (the "co-owned assets") of the Subsidiary to EIB Sukuk company limited – (the "Issuer"), a special purpose vehicle formed for the issuance of the sukuk. In substance, the co-owned assets remain in control of the Group; accordingly these assets continue to be recognised by the Group. In case of any default, the Group 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 Group and shall continue to be serviced by the Group.

7 LOANS SECURITISATION (continued)

(iv) Securitisation of Islamic Financing Receivables (continued)

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

The Group also repaid its Sukuk liabilities of AED 1.2 billion in the current year.

8 ISLAMIC FINANCING RECEIVABLES

	2012 AED 000	2011 AED 000
Murabaha	15,768,884	11,645,843
Ijara	11,522,578	9,432,418
Credit cards receivable	824,916	739,701
Wakala	3,867,950	4,229,574
Istissnaa	1,294,978	1,087,428
Others	1,449,551	1,390,749
Total Islamic financing receivables	34,728,857	28,525,713
Less: Deferred income	(1,347,338)	(787,648)
Less: Allowances for impairment	(2,085,951)	(1,412,786)
	31,295,568	26,325,279
Total of impaired Islamic financing receivables	4,891,897	2,913,630

Corporate Ijara assets amounting to AED 3.7 billion [2011: 1.2 billion] were securitised for the purpose of issuance of Sukuk liability (refer Note 7).

8 ISLAMIC FINANCING RECEIVABLES (continued)

Movement in allowances for specific impairment	2012 AED 000	2011 AED 000
Balance as at 1 January	1,088,293	594,685
Allowances for impairment made during the year	728,652	525,853
Recoveries made during the year	(90,585)	(40,540)
Amounts transferred from loans and receivables	-	8,393
Amounts written off during the year	(332)	(98)
Balance as at 31 December	1,726,028	1,088,293
Movement in allowances for collective impairment		
Balance as at 1 January	324,493	245,641
Allowances for impairment made during the year	35,430	78,852
Balance as at 31 December	359,923	324,493
Total	2,085,951	1,412,786

9 TRADING SECURITIES

31 December 2012	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Government bonds	166,498	62,836	-	229,334
Corporate bonds	326,541	293,999	2,789	623,329
Equity	-	42,032	2,729	44,761
Others	323,448	-	-	323,448
	816,487	398,867	5,518	1,220,872

9 TRADING SECURITIES (continued)

31 December 2011	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Government bonds	49,991	-	-	49,991
Corporate bonds	97,576	-	-	97,576
Equity	91,534	-	-	91,534
Others	349,578	-	-	349,578
	588,679	-	-	588,679

Reclassifications out of trading securities

In 2008, pursuant to the amendments to IAS 39 and IFRS 7, the Group reclassified certain trading securities to available-for-sale investment securities. The Group identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of selling in the short term. The Group determined that the context of the deterioration of the financial markets during the second half of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. In addition, some trading securities purchased after 1 July 2008 were subsequently identified for reclassification. Post reclassification, some of the securities have been redeemed on maturity hence the current carrying and fair values reflect the value of securities that exist as at the reporting date. The table below sets out the trading securities reclassified and their current carrying and fair values.

	1 July 2008 AED 000		31 December 2011 AED 000		31 December 2012 AED 000	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to available-for-sale investment securities	993,491	993,491	393.384	393.384	164.012	164.012
	993,491	993,491	393.384	393.384	164.012	164.012

9 TRADING SECURITIES (continued)

The table below sets out the amounts recognised in the income statement and statement of other comprehensive income in respect of financial assets reclassified out of trading securities into available-for-sale investment securities:

	Income statement AED 000	Equity AED 000
Period before reclassification (30 June 2008)		
Net trading loss	(16,661)	-
	(16,661)	-
Period after reclassification (1 July 2008 – 31 December 2012)		
Interest income	103,454	-
Net change in fair value	-	6,807
	103,454	6,807

The table below sets out the amounts that would have been recognised in the year described if the reclassifications had not been made:

	2012 AED 000
Net trading profit	15,303

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10 INVESTMENT SECURITIES

31 December 2012	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	59,751	117,292	-	177,043
Corporate bonds	148,273	73,326	21,755	243,354
	208,024	190,618	21,755	420,397
AVAILABLE-FOR-SALE:				
Government bonds	211,075	1,453,744	1,352,979	3,017,798
Corporate bonds	4,896,294	1,066,531	1,061,164	7,023,989
Equity	474,190	865,078	479,624	1,818,892
Others	233,685	734,015	601,140	1,568,840
	5,815,244	4,119,368	3,494,907	13,429,519
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Equity	3,250	59,197	-	62,447
Others	272,420	2,135	78,565	353,120
	275,670	61,332	78,565	415,567
	6,298,938	4,371,318	3,595,227	14,265,483

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10 INVESTMENT SECURITIES (continued)

31 December 2011	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	55,095	115,353	-	170,448
Corporate bonds	-	117,665	70,998	188,663
	55,095	233,018	70,998	359,111
AVAILABLE-FOR-SALE:				
Government bonds	1,293,547	1,367,001	867,782	3,528,330
Corporate bonds	5,273,967	1,240,831	1,403,836	7,918,634
Equity	492,315	1,170,547	450,348	2,113,210
Others	240,608	811,945	469,250	1,521,803
	7,300,437	4,590,324	3,191,216	15,081,977
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Equity	85,897	79,010	-	164,907
Others	188,143	2,377	87,212	277,732
	274,040	81,387	87,212	442,639
	7,629,572	4,904,729	3,349,426	15,883,727

Included in available-for-sale investment securities is an amount of AED 515 million (2011: AED 2,405 million), pledged under repurchase agreements with banks (refer Note 20).

Investment securities include investments in real estate funds as follows:

	2012 AED 000	2011 AED 000
Designated at fair value through profit or loss	12,808	13,831
Available-for-sale	900,746	952,655
	913,554	966,486

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11 INVESTMENT IN / SALE OF SUBSIDIARIES

(i) TANFEETH

On 7 July 2011, Tanfeeth L.L.C. was incorporated as a fully owned subsidiary of the Group. The primary objective of the entity is to provide a platform to the Group's various back office operations with an objective to enhance the service delivery capability and achieve efficiencies.

(ii) ACQUISITION OF DUBAI BANK P.J.S.C

As per the decree issued by the Ruler of Dubai on 11 October 2011, the Group acquired 100% stake in Dubai Bank PJSC ("Dubai Bank"), a provider of Sharia compliant banking services in the UAE.

The fair value of the assets and liabilities was determined by an external expert through an estimate of the future cash flows of these assets and liabilities using market based discount rates.

The fair value of the assets acquired is given below.

Net assets acquired	Fair Value AED million
Cash and deposits with Central Bank	1,348
Due from banks	1,367
Islamic financing receivables	8,225
Investment securities	368
Investments in associates	19
Property and equipment	143
Other assets	524
Liabilities	
Customer deposits	(12,505)
Due to banks and other financial institutions	(184)
Other liabilities	(616)
Fair value of the net assets	(1,311)
Fair value of the deposit from Ministry of Finance of the UAE (a)	543
Fair value of the Guarantee from the Government of Dubai (b)	768
	-
Fair value of the consideration	AED 10

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11 INVESTMENT IN / SALE OF SUBSIDIARIES (continued)

(ii) ACQUISITION OF DUBAI BANK P.J.S.C (continued)

(a) Fair value of the deposit from Ministry of Finance of the UAE

In connection with the transaction, the Group has received a deposit from Ministry of Finance of the UAE amounting to AED 2.8 billion at a discount compared to the market available interest rate. As per the Group policy, the financial liability should be recognised initially at its fair value plus the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Since the above deposit was received at an interest rate which is below the market available interest rate, a fair value gain of AED 543 million was recognised in the financial statements in 2011, which will be amortised over the term of the deposit (8 years) at the effective interest rate.

(b) Fair value of the Guarantee from the Government of Dubai

In connection with the transaction, the Government of Dubai has provided a guarantee for any losses at the date of the acquisition and any future losses relating to the assets and liabilities that existed on the date of acquisition for the next 7 years. An amount of AED 768 million represents the fair value of the Guarantee as at the date of the acquisition (for subsequent movement after the acquisition date, refer note 16).

(iii) SALE OF PARTIAL STAKE IN NETWORK INTERNATIONAL L.L.C.

On 31 March 2011, the Group completed the sale of 49% shareholding in Network International L.L.C, a subsidiary of the Group, for a net consideration of AED 1,366 million.

The consideration for the sale has been part financed in cash and part by a term loan of AED 707 million from the Group to the purchaser. The sale transaction gave rise to a net gain on disposal of AED 957 million.

The partial consideration financed by the term loan of AED 707 million was discounted at the cost of equity of Emirates NBD group as at 31 December 2010, resulting in an un-amortised gain which is recognised in the income statement over the tenor of the loan (5 years).

11 INVESTMENT IN / SALE OF SUBSIDIARIES (continued)

(iii) SALE OF PARTIAL STAKE IN NETWORK INTERNATIONAL L.L.C. (continued)

	AED million
Net consideration received	1,366
Carrying value of share of net assets on date of disposal	(409)
Realised gain in 2011 on disposal of 49% shareholding in subsidiary	957
Fair value gain on retained interest in joint venture*	856
	1,813

*The fair value of the retained stake of 51% in Network International L.L.C was estimated at AED 1,282 million as at 31 March 2011. The fair value gain on measurement of the retained shareholding was AED 856 million as of that date and the same was recognised in the income statement in 2011.

Post completion of the sale transaction, Network International L.L.C, is now subject to joint management control as per the terms of the sale agreement.

(iv) SALE OF STAKE IN DINERS CLUB L.L.C

In December 2012, the Group entered into an agreement to sell 100% shareholding in Diners Club UAE LLC (DC UAE), a subsidiary of the Group, to Network International (NI), a jointly controlled entity in which the Group holds 51% shares. As a result of the sale agreement, the Group will sell the DC UAE franchise rights and the commercial license to NI while retaining the card issuance and the travel account business within the Group. The transaction with NI will be completed at fair value in 2013.

12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2012 AED 000	**2011 AED 000**
Investments in associates	686,602	678,175
Investments in joint ventures	1,393,555	1,363,284
Total	2,080,157	2,041,459

12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Equity accounting was applied using management information available at the time of the Board approval date and subsequent changes are not considered material. The Group's share of impairment and profit / (loss) of associates and joint ventures is as below:

	2012 AED 000	2011 AED 000
Impairment and share of profit/(loss)	110	(654)

The following is the aggregated financial information of the material associates and joint ventures:

	2012 AED 000	2011 AED 000
Assets	14,140	13,127
Liabilities	11,038	10,212
Revenue	2,309	5,788
Profit/(Loss)	395	(1,428)

Investment in associates mainly relates to Union Properties ("UP"). Management undertook an impairment assessment of this investment during the year, which resulted in an impairment of the Group's cost of investment in UP amounting to AED NIL (2011: AED 676 million), being the difference in carrying amount and the recoverable amount using the value in use method. The value in use calculations were based on the discounted cash flow model. The cash flows were derived from the forecast for the next ten years. The recoverable amount is sensitive to estimates and assumptions on expected sales volume and future sale prices, expected future costs and expenses, weighted average cost of capital as well as terminal growth rates. Actual outcomes could differ from these estimates and assumptions. The carrying amount of the Group's investment in UP as at 31 December 2012 was AED 532 million (2011: AED 532 million).

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13 INVESTMENT PROPERTIES

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

	2012 AED 000	2011 AED 000
Balance as at 1 January	1,130,916	1,907,291
Additions	35,095	22,716
Sale of investment properties	-	(1,118)
Fair value revaluation loss	(27,280)	(288,799)
Transfer to inventories*	-	(409,174)
Transfer to property and equipment**	-	(100,000)
Balance as at 31 December	1,138,731	1,130,916

*During 2011, the Group transferred properties amounting to AED 409 million from investment properties to inventory. As a result, the Group recorded these properties at lower of cost or net realisable value.

**Represents land transferred from investment properties to property and equipment in 2011 as the associated construction cost was included in fixed assets not commissioned under property and equipment.

Investment properties comprises of freehold land and buildings. Rental income from investment properties recorded in other income is AED 29.7 million (2011: AED 19.3 million).

14 PROPERTY AND EQUIPMENT

	Freehold land and property	Leasehold premises and improvements	Others (a)	Fixed assets not commissioned (b)	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
COST					
Balance as at 1 January 2012	1,976,898	362,131	1,063,597	260,226	3,662,852
Additions	46,752	6,624	75,874	146,959	276,209
Transfers	29,208	2,602	46,986	(78,796)	-
Disposals	(46,397)	(23,487)	(68,447)	(636)	(138,967)
As at 31 December 2012	2,006,461	347,870	1,118,010	327,753	3,800,094
ACCUMULATED DEPRECIATION					
Balance as at 1 January 2012	286,842	195,227	603,793	-	1,085,862
Charge for the year	81,343	38,400	181,056	-	300,799
Disposals	(234)	(16,541)	(38,948)	-	(55,723)
As at 31 December 2012	367,951	217,086	745,901	-	1,330,938
Net book value as at 31 December 2012	1,638,510	130,784	372,109	327,753	2,469,156

Notes:

(a) Others represent furniture, office equipment, motor vehicles, computer systems and hardware.
(b) Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development and are not ready for use.

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14 PROPERTY AND EQUIPMENT (continued)

	Freehold land and property	Leasehold premises and improvements	Others (a)	Fixed assets not commissioned (b)	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
COST					
Balance as at 1 January 2011	1,095,560	328,438	931,135	799,157	3,154,290
Additions	84,379	32,306	141,748	208,683	467,116
Transfers	796,980	36,327	9,893	(743,200)	100,000
Disposals	(21)	(34,940)	(19,179)	(4,414)	(58,554)
As at 31 December 2011	1,976,898	362,131	1,063,597	260,226	3,662,852
ACCUMULATED DEPRECIATION					
Balance as at 1 January 2011	199,981	168,151	449,298	-	817,430
Charge for the year	78,740	44,243	166,517	-	289,500
Disposals	-	(17,167)	(12,022)	-	(29,189)
Impairment	8,121	-	-	-	8,121
As at 31 December 2011	286,842	195,227	603,793	-	1,085,862
Net book value as at 31 December 2011	1,690,056	166,904	459,804	260,226	2,576,990

Notes:
(a) Others represent furniture, office equipment, motor vehicles, computer systems and hardware.
(b) Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development, and are not ready for use.

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15 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles on Acquisition			Total
31 December 2012	AED 000	Software AED 000	Customer relationships AED 000	Core deposit intangibles AED 000	AED 000
Cost					
Balance as at 1 January	5,500,845	9,281	157,490	564,760	6,232,376
	5,500,845	9,281	157,490	564,760	6,232,376
Less: Amortisation and impairment					
Balance as at 1 January	4,903	9,281	131,174	256,000	401,358
Amortisation and impairment for the year	-	-	19,000	61,000	80,000
Balance as at 31 December	4,903	9,281	150,174	317,000	481,358
Net Goodwill and Intangibles	5,495,942	-	7,316	247,760	5,751,018
31 December 2011					
Cost	5,500,845	9,281	157,490	564,760	6,232,376
Less: Amortisation and impairment	4,903	9,281	131,174	256,000	401,358
Net Goodwill and Intangibles	5,495,942	-	26,316	308,760	5,831,018

Impairment testing of goodwill

The goodwill acquired through business combinations with indefinite life is reviewed annually for impairment by comparing the recoverable amount based on value-in-use calculations for cash generating units (CGUs) to which goodwill has been allocated with its carrying value.

The goodwill has been allocated to three individual cash-generating units, which are also reportable segments as follows:

- Corporate banking
- Consumer banking
- Treasury

15 GOODWILL AND INTANGIBLES (continued)

Key assumptions used in impairment testing for goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period.

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the projection period;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product ("GDP"); and
- Local inflation rates.

Interest margins

Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are changed over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed ("ROCE") required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital ("WACC").

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

At 31 December 2012, the goodwill allocated to Corporate Banking was AED 3,589 million (2011: AED 3,589 million), the goodwill allocated to Consumer Banking was AED 1,700 million (2011: AED 1,700 million) and the goodwill allocated to Treasury was AED 206 million (2011: AED 206 million).

Corporate Banking

The recoverable amount of Corporate Banking goodwill, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 13.09%. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by AED 1,986 million and AED 1,285 million respectively.

Consumer Banking

The recoverable amount of Consumer Banking goodwill, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 13.09%. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by AED 1,797 million and AED 1,162 million respectively.

15 GOODWILL AND INTANGIBLES (continued)

Treasury

The recoverable amount of Treasury goodwill, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 13.09%. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by AED 476 million and AED 308 million respectively.

Intangibles:

Acquired intangibles are recognised at their "fair value" upon initial recognition. "Fair value" is defined as 'the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction'.

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles are amortised using the straight-line method over the useful life of the asset, which is estimated to be between 5 and 11 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

16 OTHER ASSETS

	2012 AED 000	2011 AED 000
Accrued interest receivable	1,178,070	1,226,230
Islamic financing - profit receivable	143,797	269,814
Prepayments and other advances	216,434	246,999
Sundry debtors and other receivables	469,806	534,854
Inventory*	1,280,446	1,433,417
Fair value of deposit (refer note 11)	476,106	542,910
Fair value of guarantee (refer note 11)	1,639,335	768,114
Others	1,034,880	843,597
	6,438,874	5,865,935

*Included in inventory in 2011 is AED 409 million pertaining to transfer from Investment properties.

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17 DUE TO BANKS

	2012 AED 000	2011 AED 000
Demand and call deposits	33,603	83,191
Balances with correspondent banks	1,632,166	4,355,918
Time and other deposits	20,503,058	21,666,124
	22,168,827	26,105,233

The interest rates paid on the above averaged 1.2% p.a. (2011: 1.3% p.a.).

18 CUSTOMER DEPOSITS

(a) By type	2012 AED 000	2011 AED 000
Demand, call and short notice	66,227,002	57,991,685
Time	95,263,715	84,003,998
Savings	13,713,039	10,669,783
Others	1,114,402	1,347,941
	176,318,158	154,013,407

(b) By segment	2012 AED 000	2011 AED 000
Corporate banking	80,829,050	68,254,373
Consumer banking	77,972,549	68,753,306
Treasury	6,014,216	5,503,385
Others	11,502,343	11,502,343
	176,318,158	154,013,407

The interest rates paid on the above deposits averaged 1.5% p.a. in 2012 (2011: 1.8% p.a.).

Customer deposits include AED 11,502 million (2011: AED 11,502 million) pertaining to facilities received from the Ministry of Finance of the UAE in December 2008.

19 ISLAMIC CUSTOMER DEPOSITS

(a) By type

	2012 AED 000	2011 AED 000
Demand, call and short notice	6,915,300	7,085,962
Time	26,190,963	28,889,291
Savings	4,258,737	3,176,557
Others	245,289	148,836
	37,610,289	39,300,646

(b) By segment

	2012 AED 000	2011 AED 000
Corporate banking	12,978,119	8,124,777
Consumer banking	22,756,478	29,037,104
Treasury	793,820	1,056,893
Others	1,081,872	1,081,872
	37,610,289	39,300,646

Islamic customer deposits include AED 1,082 million (2011: AED 1,082 million) pertaining to facilities received from the Ministry of Finance of the UAE in December 2008.

20 REPURCHASE AGREEMENTS WITH BANKS

Deposits under repurchase agreements represent borrowings from banks and are secured by a portfolio of investment securities and cash collateral as follows:

	2012 AED 000	2011 AED 000
Available-for-sale investment securities	514,552	2,404,975
Cash collateral	216,321	114,685
	730,873	2,519,660

21 DEBT ISSUED AND OTHER BORROWED FUNDS

	2012 AED 000	2011 AED 000
Medium term note programme	13,830,670	8,340,640
Syndicated borrowings from banks	-	5,508,750
Borrowings raised from loan securitisations (refer Note 7)	3,360,122	1,787,477
	17,190,792	15,636,867

-

	2012 AED 000	2011 AED 000
Balance as at 1 January	15,636,867	19,415,809
New issues	11,177,393	3,799,461
Repayments	(9,654,077)	(7,627,951)
Other movements	30,609	49,548
Balance at end of the year	17,190,792	15,636,867

The Group has outstanding medium term borrowings totalling AED 17,191 million (2011: AED 15,637 million) which will be repaid as follows:

	2012 AED million	2011 AED million
2012	-	8,362
2013	4,426	2,075
2014	1,477	231
2015	1,276	880
2016	1,513	618
2017	4,103	-
2018	2,563	2,564
2019	26	-
2020	180	-
2022	1,627	907
	17,191	15,637

The interest rate paid on the above averaged 2.8% p.a. in 2012 (2011: 1.6 % p.a.).

21 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

The medium term note programme includes subordinated notes issued amounting to AED 599 million (2011: AED 618 million) due in 2016 and AED 1,326 million (2011: AED 1,343 million) due in 2018. These notes will, in the event of the winding up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during 2012 and 2011.

22 OTHER LIABILITIES

	2012 AED 000	2011 AED 000
Accrued interest payable	984,287	739,211
Profit payable to Islamic depositors	271,491	204,572
Managers' cheques	1,043,054	563,569
Trade and other payables	1,091,301	1,044,319
Staff related liabilities	741,467	761,679
Provision for taxation (refer note 35)	11,333	8,346
Others	1,626,798	1,649,112
	5,769,731	4,970,808

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23 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 5,557,774,724 ordinary shares of AED 1 each (2011: 5,557,774,724 ordinary shares).

Movement of ordinary shares in issue during the year is made up as follows:

	Number of shares	Share capital AED 000	Share premium reserve AED 000
As at 1 January 2012	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2012	5,557,774,724	5,557,775	12,270,124
As at 1 January 2011	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2011	5,557,774,724	5,557,775	12,270,124

At the forthcoming Annual General Meeting which will be held on 6 March 2013, the Group is proposing a cash dividend of AED 0.25 per share for the year (2011: AED 0.20 per share) amounting to AED 1,388 million (2011: AED 1,110 million).

24 TIER I CAPITAL NOTES

In June 2009, the Group issued regulatory tier I capital notes amounting to AED 4 billion. The notes are perpetual, subordinated, unsecured and have been issued at a fixed interest rate for the first five years and on a floating rate basis thereafter. The Bank can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and the event is not considered an event of default. The notes carry no maturity date and have been classified under equity.

25 RESERVES

Legal and statutory reserves

In accordance with the Bank's Articles of Association, and in compliance with Article 82 of Union Law No.10 of 1980, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. A transfer of AED 255.4 million (2011: AED 253.2 million) has been made to the legal reserve in compliance with the provisions of the Bank's Articles of Association. 10% of the profit is also transferred to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2012	2,451,405	555,800	2,313,733	5,320,938
Transfer from retained earnings	255,410	-	-	255,410
At 31 December 2012	2,706,815	555,800	2,313,733	5,576,348

Prior year comparatives are shown in the statement of changes in equity.

Fair value reserve

Fair value reserve includes the net change in fair value of available-for-sale financial assets and the net effective portion of changes in fair value of cash flow hedges.

Currency translation reserve

Currency translation reserve represents the exchange differences arising from re-translating the opening net investment in foreign operations.

26 NET INTEREST INCOME

	2012 AED 000	2011 AED 000
Interest income		
Loans and receivables to customers	8,644,700	9,114,620
Loans and receivables to banks	180,719	313,287
Other debt securities	7,473	2,496
Available-for-sale investment securities	271,761	294,688
Held to maturity investment securities	2,926	17,427
Trading securities and designated at fair value through profit or loss investment securities	29,581	30,659
Others	99,149	378,268
Total interest income	**9,236,309**	**10,151,445**
Interest expense		
Deposits from customers	(2,073,574)	(2,342,780)
Borrowings from banks and financial institutions	(423,301)	(641,146)
Securities lent and repurchase agreements	(22,577)	(20,170)
Others	(457,711)	(432,337)
Total interest expense	**(2,977,163)**	**(3,436,433)**
Net interest income	**6,259,146**	**6,715,012**

Included in interest income for the year 31 December 2012 is a total of AED 86 million (2011: AED 107 million) relating to interest unwind on impaired financial assets.

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27 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2012 AED 000	2011 AED 000
Murabaha	453,203	371,889
Ijara	647,637	564,563
Istissnaa	17,187	20,999
Wakala	25,718	113,899
Others	181,418	210,215
	1,325,163	1,281,565

Income from Islamic financing and investment products for the current period includes Dubai Bank related income amounting to AED 334 million. (2011: AED 96 million).

28 DISTRIBUTION TO DEPOSITORS AND PROFIT PAID TO SUKUK HOLDERS

	2012 AED 000	2011 AED 000
Distribution to depositors	545,421	730,347
Profit paid to sukuk holders	127,248	7,971
	672,669	738,318

Distribution to depositors represents the share of income between depositors and equity holders. The allocation and distribution to depositors is approved by the Fatwa and Sharia'a Supervisory Board of the Islamic banking subsidiaries.

Profit paid to sukuk holders represents the distribution of returns received in respect of leased assets transferred to the EIB Sukuk Company Limited which was specifically formed for this transaction.

Distribution to depositors for the current period includes Dubai Bank related distribution amounting to AED 158 million. (2011: AED 80 million).

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29 NET FEE AND COMMISSION INCOME

	2012 AED 000	2011 AED 000
Commission income on Trade finance products / services	631,676	579,461
Fee income	1,092,196	1,135,141
Brokerage fees	23,023	10,084
Portfolio and other management fees	130,564	132,074
Total fee and commission income	1,877,459	1,856,760
Fee and commission expense	(146,283)	(107,700)
	1,731,176	1,749,060

Net fee and commission income for the current period includes Dubai Bank related income amounting to AED 30 million. (2011: AED 5 million).

30 NET GAIN / (LOSS) ON TRADING SECURITIES

	2012 AED 000	2011 AED 000
Realised loss on trading securities	(16,040)	(29,584)
Unrealised gain/(loss) on trading securities	86,590	(110,051)
	70,550	(139,635)

31 OTHER OPERATING INCOME

	2012 AED 000	2011 AED 000
Dividend income	111,443	87,762
Gain from sale of available-for-sale investment securities	365,720	163,350
(Loss) / gain from investment securities designated at fair value through profit or loss	(4,941)	24,762
Rental income	55,373	38,846
Revaluation loss on investment properties	(27,280)	(288,799)
Gain on sale of properties	65,074	-
Foreign exchange income*	841,809	527,884
Derivative income	105,537	355,127
Other income (net)	(14,244)	153,486
	1,498,491	1,062,418

*Foreign exchange income comprises of trading and translation gain and gain on dealings with customers.

Other operating income for the current period includes Dubai Bank related income amounting to AED 14.5 million. (2011: AED 8.9 million).

32 GENERAL AND ADMINISTRATIVE EXPENSES

	2012 AED 000	2011 AED 000
Staff cost	2,287,617	2,253,521
Occupancy cost	251,034	273,811
Equipment and supplies	81,113	79,354
Information technology cost	102,993	83,879
Communication cost	108,120	111,517
Service, legal and professional fees	139,093	87,683
Marketing related expenses	122,475	78,815
Depreciation	300,799	289,500
Others	275,568	249,654
	3,668,812	3,507,734

General and administrative expenses for the current period include Dubai Bank related costs amounting to AED 304 million. (2011: AED 93 million).

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33 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2012 AED 000	2011 AED 000
Net impairment of loans and receivables (refer Note 6)	(3,180,719)	(4,130,570)
Net impairment of Islamic financing receivables (refer Note 8)	(673,497)	(564,165)
Net impairment of investment securities	(119,451)	(221,514)
Net impairment of due from banks	(3,234)	(3,523)
Net special asset recoveries	1,862	2,902
Bad debt written off	(28,869)	(52,973)
	(4,003,908)	(4,969,843)

34 DIRECTORS FEES

This comprises of fees payable to the directors of the Group of AED 8.3 million (2011: AED 17.6 million). The 2012 figure includes fees payable to the directors of subsidiaries of AED NIL million (2011: AED 6.3 million).

35 TAXATION

At 31 December 2012 provisions for tax payable on overseas branch operations amount to AED 11.3 million (2011: AED 8.3 million) (refer Note 22).

36 EARNINGS PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for interest expense on tier I capital notes) of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

	2012 AED 000	2011 AED 000
Profit for the year attributable to equity holders	2,554,030	2,531,023
Deduct : Interest on tier 1 capital notes	(262,300)	(261,583)
Net profit attributable to equity holders	2,291,730	2,269,440
Weighted average number of equity shares in issue (,000)	5,557,775	5,557,775
Earnings per share* (AED)	0.41	0.41

*The diluted and basic Earnings per share were same at the year end.

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37 DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

31 December 2012 notional amounts by term to maturity

	Positive fair value	Negative fair value	Notional amount	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	203,946	(161,359)	76,873,556	30,560,475	42,793,166	3,519,915	-	-
Foreign exchange options	344,075	(344,075)	19,810,274	1,856,253	15,577,534	2,376,487	-	-
Interest rate swaps/caps	1,501,811	(1,455,016)	51,874,989	2,085,420	15,245,132	11,230,151	11,582,660	11,731,626
Credit derivatives	4,527	(38)	288,292	86,304	201,988	-	-	-
Equity Options	-	-	87,442	-	60,596	26,846	-	-
Commodity options	-	-	102,639	-	60,596	42,043	-	-
	2,054,359	(1,960,488)	149,037,192	34,588,452	73,939,012	17,195,442	11,582,660	11,731,626
Derivatives held as cash flow hedges:								
Interest rate swaps	124,498	(21,581)	3,650,000	-	-	2,450,000	1,200,000	-
Derivatives held as fair value hedges:								
Interest rate swaps	39,525	(52,075)	1,888,584	-	64,189	1,624,042	90,178	110,175
Total	2,218,382	(2,034,144)	154,575,776	34,588,452	74,003,201	21,269,484	12,872,838	11,841,801

37 DERIVATIVES (continued)

31 December 2011 notional amounts by term to maturity

	Positive fair value	Negative fair value	Notional amount	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	173,497	(173,028)	68,147,954	25,886,817	40,757,713	1,467,242	36,182	-
Foreign exchange options	152,578	(150,006)	5,243,885	1,001,868	4,093,281	148,736	-	-
Interest rate swaps/caps	1,782,058	(1,684,846)	67,823,843	2,271,216	14,269,903	24,998,757	11,374,610	14,909,357
Credit derivatives	13,502	(42,456)	4,504,028	1,361,835	2,617,758	475,541	48,894	-
Equity Options	191,475	-	269,033	258,750	-	10,283	-	-
	2,313,110	(2,050,336)	145,988,743	30,780,486	61,738,655	27,100,559	11,459,686	14,909,357
Derivatives held as cash flow hedges:								
Interest rate swaps	85,764	(5,870)	4,772,605	1,836,250	186,355	800,000	1,950,000	-
Derivatives held as fair value hedges:								
Interest rate swaps	-	(12,565)	84,975	-	-	-	84,975	-
Total	2,398,874	(2,068,771)	150,846,323	32,616,736	61,925,010	27,900,559	13,494,661	14,909,357

37 DERIVATIVES (continued)

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group and potential future fluctuations. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities, and in many cases are collateralized under Credit Support Annex (CSA).

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

The Group uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate customer deposits and medium term borrowings. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and receivables. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

The Group also uses interest rate swaps to hedge against changes in value of investment securities due to interest rate movements. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

38 EMPLOYEES LONG TERM INCENTIVE SCHEME

On 1 April 2006, the Group had introduced two long term incentive plans for selected key employees. These were cash settled share based incentive plans wherein participants are awarded with Long Term Incentive (LTI) units which will be converted into cash after vesting.

IFRS 2 "Share Based Payments" was applied in accounting for the LTI units granted. All LTI units granted to employees have been fully exercised and the plan has been closed during the year.

	LTI
LTI outstanding as at 1 January 2012	797,197
LTI units forfeited/lapsed during the year	(63,681)
LTI units vested during the year	(733,516)
LTI units outstanding as at 31 December 2012	-

39 OPERATING SEGMENTS

The Group is organised into the following main businesses:

(a) Corporate banking represents structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate, commercial customers, investment banking and Islamic products under Al Watani Al Islami;

(b) Consumer banking represents retail loans and deposits, private banking and wealth management, asset management and consumer financing;

(c) Treasury activities comprise of managing the Group's portfolio of investments, funds management, and interbank treasury operations;

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiaries; and

(e) Other operations of the Group include property management, equity broking services, operations and support functions.

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39 OPERATING SEGMENTS (continued)

31 December 2012	**Corporate banking AED 000**	**Consumer banking AED 000**	**Treasury AED 000**	**Islamic banking* AED 000**	**Others** AED 000**	**Total AED 000**
Net interest income and income from Islamic products net of distribution to depositors	3,122,137	3,137,918	(430,822)	926,572	155,835	6,911,640
Net Fees, commission and other income	1,157,496	1,238,319	958,897	260,829	(315,324)	3,300,217
Total operating income	4,279,633	4,376,237	528,075	1,187,401	(159,489)	10,211,857
General and administrative expenses	(326,658)	(1,432,814)	(94,840)	(732,398)	(1,082,102)	(3,668,812)
Amortization of intangibles	-	-	-	-	(80,000)	(80,000)
Net specific impairment loss on financial assets	(3,291,020)	(315,291)	(91,389)	(458,140)	-	(4,155,840)
Net collective impairment loss on financial assets	64,797	117,889	-	(30,754)	-	151,932
Net impairment allowance on non financial assets	-	-	-	-	-	-
Impairment and share of profit / (loss) of associates and joint ventures	-	-	-	5,578	104,541	110,119
Taxation charge	(10,239)	1,087	(6,085)	-	-	(15,237)
Group profit for the year	716,513	2,747,108	335,761	(28,313)	(1,217,050)	2,554,019
Segment assets	194,443,897	31,475,816	36,975,490	40,732,330	4,668,818	308,296,351
Segment liabilities and equity	86,171,808	93,526,224	37,010,381	38,320,720	53,267,218	308,296,351

* During 2012, as a result of a unified management structure, Emirates Islamic Bank and Dubai Bank are reported as a combined segment.

** During the year various subsidiaries have been re-segmented from others to relative business segments.

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39 OPERATING SEGMENTS (continued)

31 December 2011	**Corporate banking AED 000**	**Consumer banking AED 000**	**Treasury AED 000**	**Islamic banking* AED 000**	**Others** AED 000**	**Total AED 000**
Net interest income and income from Islamic products net of distribution to depositors	3,505,147	2,912,398	(3,284)	666,775	177,223	7,258,259
Net Fees, commission and other income	1,131,777	1,005,457	681,678	(71,523)	(75,546)	2,671,843
Total operating income	4,636,924	3,917,855	678,394	595,252	101,677	9,930,102
General and administrative expenses	(337,679)	(1,478,344)	(76,179)	(523,048)	(1,092,484)	(3,507,734)
Amortization of intangibles	-	-	-	-	(93,860)	(93,860)
Net specific impairment loss on financial assets	(2,345,876)	(473,012)	(106,715)	(483,895)	(1,048)	(3,410,546)
Net collective impairment loss on financial assets	(1,695,209)	211,247	-	(75,335)	-	(1,559,297)
Net impairment allowance on non financial assets	-	-	-	-	(8,121)	(8,121)
Impairment and share of profit / (loss) of associates and joint ventures	-	-	-	2,426	(656,418)	(653,992)
Gain on disposal of 49% stake in subsidiary and fair value gain on retained interest in joint venture	-	-	-	-	1,812,798	1,812,798
Taxation charge	(5,980)	(12,808)	(1,215)	-	(5,864)	(25,867)
Group profit for the year	252,180	2,164,938	494,285	(484,600)	56,680	2,483,483
Segment assets	184,479,494	31,345,504	33,272,516	29,611,637	5,904,235	284,613,386
Segment liabilities and equity	84,963,151	83,495,474	54,008,595	33,318,193	28,827,973	284,613,386

*During 2012, as a result of a unified management structure, Emirates Islamic Bank and Dubai Bank are reported as a combined segment and hence 2011 segmental results have been restated.

**During the year various subsidiaries have been re-segmented from others to relative business segments and hence 2011 numbers have been restated.

40 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The direct subsidiaries, associates and joint ventures of the Group are as follows:

	Group % Share-holding	Nature of business	Country of incorporation
As at 31 December 2012			
Subsidiaries:			
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
Diners Club (UAE) LLC	100	International charge card	Dubai, U.A.E.
Dubai Bank PJSC	100	Islamic Banking	Dubai, U.A.E.
E.T.F.S. LLC	100	Trade finance services	Dubai, U.A.E.
Emirates Financial Services PSC	100	Funds management	Dubai, U.A.E.
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey
Emirates Loyalty Company LLC (under liquidation)	100	Customer loyalty and smart card services	Dubai, U.A.E.
Emirates NBD Global Funding Limited	100	Medium term borrowing and money market transactions	Cayman Islands
Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.
Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
Emirates NBD Asset Management Limited	100	Asset management	Dubai, U.A.E.
Emirates Islamic Bank PJSC	99.8	Islamic banking	Dubai, U.A.E.
Emirates Money Consumer Finance LLC	100	Consumer Finance	Dubai, U.A.E.
Emirates Funds LLC	100	Asset Management	Dubai, U.A.E.
Emirates NBD Capital (KSA) LLC	100	Investment Services	KSA
Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey
Tanfeeth LLC	100	Shared services organization	Dubai, U.A.E.
KSA Mortgage Company	100	Nominee Company for Mortgage Business	KSA
Associates:			
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.
Union Properties PJSC	47.6	Real estate	Dubai, U.A.E.
Joint ventures:			
Network International LLC	51	Card processing services	Dubai, U.A.E.

40 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)

Other entities consolidated by the Group based on an assessment of control are as follows:

	Nature of business
Group tranche of Emblem Finance Company No. 2 Limited	SPE for asset securitisation
Emirates NBD Auto Financing Limited	SPE for asset securitisation
Emirates NBD Auto Finance Limited	SPE for asset securitisation
ENBD Asset Finance Company No.1 Limited	SPE for asset securitisation
ENBD Asset Finance Company No.2 Limited	SPE for asset securitisation

Any material changes in the Group's principal direct subsidiaries during the year 2012 and 2011 have been disclosed in Note 11.

41 OPERATING LEASES

At 31 December, the Group's non-cancellable operating lease rentals are payable as follows:

	2012 AED 000	2011 AED 000
Less than one year	45,865	50,898
Between one and five years	103,330	115,095
More than five years	8,117	11,244
	157,312	177,237

42 COMMITMENTS AND CONTINGENCIES

(a) At 31 December, the Groups commitments and contingencies are as follows:

	2012 AED 000	2011 AED 000
Letters of credit	6,369,337	6,687,697
Guarantees	31,929,804	30,529,720
Liability on risk participations	2,270,080	2,449,906
Irrevocable loan commitments	11,580,786	16,483,259
	52,150,007	56,150,582

(b) Acceptances

Under IAS 39, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

(c) Capital commitments

The Group has commitments as at 31 December 2012 for branch refurbishments and automation projects of AED 309 million (2011: AED 535 million).

43 RELATED PARTY TRANSACTIONS

Emirates NBD Group is partly owned by Investment Corporation of Dubai (55.6%), a company in which the Government of Dubai is the majority shareholder.

Deposits from and loans to government related entities, other than those that have been individually disclosed, amount to 11% (2011: 10%) and 18% (2011: 19%) respectively, of the total deposits and loans of the Group.

These entities are independently run business entities, and all financial dealings with the Group are on an arms-length 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 interest rates and collateral, 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 balances and transactions are as follows:

	2012 AED 000	2011 AED 000
Loans and receivables:		
To majority shareholder of the parent	75,711,172	60,864,222
To parent	2,205,635	2,204,220
To directors and related companies*	1,935,654	2,363,996
To associates and joint ventures	3,176,533	3,198,998
	83,028,994	68,631,436

* The composition of the Board of directors (including Chairman and Vice Chairman) underwent a change in June 2011, whereby six existing directors were retired and five new directors were appointed as part of the reconstituted Board.

	2012 AED 000	2011 AED 000
Customer and Islamic deposits:		
From majority shareholder of the parent	2,312,744	1,295,920
From parent	2,787,464	1,337,607
From associates and joint ventures	381,008	511,801
	5,481,216	3,145,328

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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43 RELATED PARTY TRANSACTIONS (continued)

	2012 AED 000	2011 AED 000
Investment in Government of Dubai bonds	184,563	836,509
Loans to and investment in funds managed by the Group	881,420	1,005,079
Commitments to associates	411,801	452,891
Customer acceptances to associates	13,425	4,947
Payments made to associates and joint ventures	246,083	216,869
Purchase of property from associate	-	1,027,345
Fees received in respect of funds managed by the Group	47,829	40,232
Interest paid to funds managed by the Group	17,544	23,646
Interest paid to joint ventures	1,216	2,323
Sitting fees paid to directors for board sub-committee	5,660	-
Gain on transfer of shares from joint ventures	-	41,043
Key management compensation:		
Short term employment benefits	45,015	58,874
Post employment benefits	870	1,162
	45,885	60,036

Key management personnel are those persons 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 period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relations at the period end.

Emirates NBD

44 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into amount any collateral held or other credit enhancement, can be analysed by the following regions:

31 December 2012:	GCC AED 000	International AED 000	Total AED 000
ASSETS			
Cash and deposits with Central Bank	30,758,057	13,805	30,771,862
Due from banks	11,185,827	6,292,620	17,478,447
Loans and receivables	182,852,640	4,013,200	186,865,840
Islamic financing receivables	30,922,213	373,355	31,295,568
Trading securities	1,215,354	5,518	1,220,872
Investment securities	10,404,100	3,861,383	14,265,483
Investments in associates and joint ventures	2,054,506	25,651	2,080,157
Positive fair value of derivatives	931,754	1,286,628	2,218,382
Investment properties	1,138,731	-	1,138,731
Customer acceptances	6,239,639	62,322	6,301,961
Property and equipment	2,451,174	17,982	2,469,156
Goodwill and intangibles	5,751,018	-	5,751,018
Other assets	6,402,220	36,654	6,438,874
TOTAL ASSETS	**292,307,233**	**15,989,118**	**308,296,351**
LIABILITIES			
Due to banks	15,557,538	6,611,289	22,168,827
Customer deposits	164,662,687	11,655,471	176,318,158
Islamic customer deposits	37,288,558	321,731	37,610,289
Repurchase agreements with banks	71,544	659,329	730,873
Debt issued and other borrowed funds	-	17,190,792	17,190,792
Sukuk payable	3,673,000	-	3,673,000
Negative fair value of derivatives	622,190	1,411,954	2,034,144
Customer acceptances	6,239,639	62,322	6,301,961
Other liabilities	5,735,311	34,420	5,769,731
Total equity	36,498,576	-	36,498,576
Total liabilities and equity	**270,349,043**	**37,947,308**	**308,296,351**
Geographical distribution of letters of credit and guarantees	37,762,065	537,076	38,299,141
31 December 2011:			
Geographical distribution of assets	267,438,181	17,175,205	284,613,386
Geographical distribution of liabilities and equity	252,225,630	32,387,756	284,613,386
Geographical distribution of letters of credit and guarantees	34,388,656	2,828,761	37,217,417

45 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and carrying values:

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

As at 31 December 2012	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Total carrying Value* AED 000
Financial Assets							
Due from banks	-	-	-	-	17,478,447	-	17,478,447
Loans and receivables	-	-	-	186,865,840	-	-	186,865,840
Islamic financing receivables	-	-	-	31,295,568	-	-	31,295,568
Trading securities	1,220,872	-	-	-	-	-	1,220,872
Investment securities	415,567	420,397	13,429,519	-	-	-	14,265,483
Investments in associates and joint ventures	-	-	-	-	2,080,157	-	2,080,157
Positive fair value of derivatives	2,054,359	-	-	-	-	164,023	2,218,382
Others	-	-	-	-	39,735,003	-	39,735,003
	3,690,798	420,397	13,429,519	218,161,408	59,293,607	164,023	295,159,752
Financial liabilities							
Due to banks	-	-	-	-	22,168,827	-	22,168,827
Customer deposits	-	-	-	-	176,318,158	-	176,318,158
Islamic customer deposits	-	-	-	-	37,610,289	-	37,610,289
Repurchase agreements with banks	-	-	-	-	730,873	-	730,873
Debt issued and other borrowed funds	-	-	-	-	17,190,792	-	17,190,792
Sukuk payable	-	-	-	-	3,673,000	-	3,673,000
Negative fair value of derivatives	1,960,488	-	-	-	-	73,656	2,034,144
Others	-	-	-	-	12,071,692	-	12,071,692
	1,960,488	-	-	-	269,763,631	73,656	271,797,775

*The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

45 FINANCIAL ASSETS AND LIABILITIES

As at 31 December 2011	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Total carrying Value* AED 000
Financial Assets							
Due from banks	-	-	-	-	19,851,579	-	19,851,579
Loans and receivables	-	-	-	176,815,034	-	-	176,815,034
Islamic financing receivables	-	-	-	26,325,279	-	-	26,325,279
Trading securities	588,679	-	-	-	-	-	588,679
Investment securities	442,639	359,111	15,081,977	-	-	-	15,883,727
Investments in associates and joint ventures	-	-	-	-	2,041,459	-	2,041,459
Positive fair value of derivatives	2,313,110	-	-	-	-	85,764	2,398,874
Others	-	-	-	-	27,758,460	-	27,758,460
	3,344,428	359,111	15,081,977	203,140,313	49,651,498	85,764	271,663,091
Financial liabilities							
Due to banks	-	-	-	-	26,105,233	-	26,105,233
Customer deposits	-	-	-	-	154,013,407	-	154,013,407
Islamic customer deposits	-	-	-	-	39,300,646	-	39,300,646
Repurchase agreements with banks	-	-	-	-	2,519,660	-	2,519,660
Debt issued and other borrowed funds	-	-	-	-	15,636,867	-	15,636,867
Sukuk payable	-	-	-	-	1,239,181	-	1,239,181
Negative fair value of derivatives	2,050,336	-	-	-	-	18,435	2,068,771
Others	-	-	-	-	8,748,567	-	8,748,567
	2,050,336	-	-	-	247,563,561	18,435	249,632,332

* The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

45 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair Value of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2012	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Trading securities				
Debt Securities	852,663	-	-	852,663
Investment in equities	44,761	-	-	44,761
Others	169,830	153,618	-	323,448
	1,067,254	153,618	-	1,220,872
Investment securities				
AVAILABLE-FOR-SALE:				
Debt Securities	8,605,902	1,224,186	211,699	10,041,787
Investment in equities	801,861	350,899	666,132	1,818,892
Others	226,634	423,958	918,248	1,568,840
	9,634,397	1,999,043	1,796,079	13,429,519
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Investment in equities	62,447	-	-	62,447
Others	156,646	195,130	1,344	353,120
	219,093	195,130	1,344	415,567
Derivatives held for trading				
Positive fair value of derivatives	-	2,054,359	-	2,054,359
Derivatives held as cash flow hedges:				
Interest rate swaps	-	124,498	-	124,498
Derivatives held as fair value hedges:				
Interest rate swaps	-	39,525	-	39,525
	-	2,218,382	-	2,218,382
Derivatives held for trading				
Negative fair value of derivatives	-	(1,960,488)	-	(1,960,488)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(21,581)	-	(21,581)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(52,075)	-	(52,075)
	-	(2,034,144)	-	(2,034,144)
	10,920,744	2,532,029	1,797,423	15,250,196

45 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets AED 000	Financial assets designated at fair value through profit or loss AED 000	Financial assets held for trading AED 000	Total AED 000
Balance as at 1 January 2012	1,935,289	2,985	141,677	2,079,951
Total gains or losses:			-	-
- in profit or loss	(4,471)	-	-	(4,471)
- in other comprehensive income	92,800	-	-	92,800
Purchases	4,368	-	-	4,368
Issues	-	47,103	-	47,103
Settlements	(294,392)	-	(141,677)	(436,069)
Transfers into Level 3	62,486	735	-	63,221
Transfers out of Level 3	-	(49,479)	-	(49,479)
Balance as at 31 December 2012	1,796,080	1,344	-	1,797,424

During the financial year ended 31 December 2012 available for sale financial assets with a carrying amount of AED 821 million (2011: AED Nil million) were transferred from Level 1 to Level 2 because quoted prices in the market for such debt securities became no longer regularly available. In order to determine the fair value of such debt securities, management used a valuation technique in which all significant inputs were based on observable market data. There have been transfers from Level 2 to Level 1 amounting to AED 175 million (2011: AED Nil million) during the year 2012.

45 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

31 December 2011	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Trading securities				
Debt Securities	147,567	-	-	147,567
Investment in equities	66,499	25,035	-	91,534
Others	207,901	-	141,677	349,578
	421,967	25,035	141,677	588,679
Investment securities				
AVAILABLE-FOR-SALE:				
Debt Securities	10,570,504	577,398	299,062	11,446,964
Investment in equities	961,338	449,989	701,883	2,113,210
Others	22,061	565,398	934,344	1,521,803
	11,553,903	1,592,785	1,935,289	15,081,977
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Investment in equities	92,636	72,271	-	164,907
Others	-	274,747	2,985	277,732
	92,636	347,018	2,985	442,639
Derivatives held for trading				
Positive fair value of derivatives	-	2,313,110	-	2,313,110
Derivatives held as cash flow hedges:				
Interest rate swaps	-	85,764	-	85,764
	-	2,398,874	-	2,398,874
Derivatives held for trading				
Negative fair value of derivatives	-	(2,050,336)	-	(2,050,336)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(5,870)	-	(5,870)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(12,565)	-	(12,565)
	-	(2,068,771)	-	(2,068,771)
	12,068,506	2,294,941	2,079,951	16,443,398

45 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets AED 000	Financial assets designated at fair value through profit or loss AED 000	Financial assets held for trading AED 000	Total AED 000
Balance as at 1 January 2011	2,036,039	2,219	-	2,038,258
Total gains or losses:				-
- in profit or loss	(19,521)	(10,328)	(98,919)	(128,768)
- in other comprehensive income	(6,452)	-	-	(6,452)
Purchases	128,686	11,094	240,596	380,376
Settlements	(148,368)	-	-	(148,368)
Transfers out of Level 3	(55,095)	-	-	(55,095)
Balance as at 31 December 2011	1,935,289	2,985	141,677	2,079,951

46 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

		2012 AED 000	2011 AED 000
(a)	Analysis of changes in cash and cash equivalents during the year		
	Balance at beginning of year	(2,335,214)	(589,330)
	Net cash inflow	6,943,448	(1,745,884)
	Balance at end of year	4,608,234	(2,335,214)
(b)	Analysis of cash and cash equivalents		
	Cash and deposits with Central Bank	30,771,862	21,526,137
	Due from banks	17,478,447	19,851,579
	Due to banks	(22,168,827)	(26,105,233)
		26,081,482	15,272,483
	Less : deposits with Central Bank for regulatory purposes	(14,318,851)	(12,633,518)
	Less : certificates of deposits with Central Bank maturing after three months	(6,250,000)	(5,700,000)
	Less : amounts due from banks maturing after three months	(4,392,890)	(2,981,944)
	Add : amounts due to banks maturing after three months	3,488,493	3,707,765
		4,608,234	(2,335,214)

47 CAPITAL MANAGEMENT AND ALLOCATION

The Central Bank of UAE supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital is computed at a Group level using the Basel II framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel II framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Minimum Capital Requirements

Per current capital requirements, the Central Bank of UAE requires the Group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%).

The tiered components of Bank's regulatory capital comprise of:

- Tier I capital includes share capital, share premium, legal, statutory and other reserves, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

- Tier II capital includes qualifying subordinated debt, undisclosed reserve, and fair value reserve.

The Group is compliant with the Standardised Approach for Credit, Market and Operational Risk (Pillar I) with effect from 31st December 2007.

The capital adequacy ratio as per Basel II framework is given below:

	2012 AED 000	2011 AED 000
Tier I capital		
Issued capital	5,557,775	5,557,775
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	2,706,815	2,451,405
Other reserves	2,864,740	2,869,533
Retained earnings	8,505,205	7,587,509
Tier I capital notes	4,000,000	4,000,000
Non-controlling interest	46,269	46,280
Total tier I capital	35,950,928	34,782,626
Less : Goodwill and intangibles	(5,751,018)	(5,831,018)
Less : Treasury shares	(46,175)	(46,175)
Total	30,153,735	28,905,433

47 CAPITAL MANAGEMENT AND ALLOCATION (continued)

	2012 AED 000	2011 AED 000
Tier II capital		
Undisclosed reserves/ general provisions	3,600,001	3,751,933
Fair value reserve	267,220	110,071
Hybrid (debit/equity) capital instruments	10,067,372	12,584,215
Subordinated debt	1,804,374	1,837,136
Total	15,738,967	18,283,355
Of which: Eligible tier II capital	14,864,988	16,686,640
Total regulatory capital	45,018,723	45,592,073

RISK WEIGHTED EXPOSURE

	2012 AED 000	2011 AED 000
Credit risk	201,959,491	206,506,517
Market risk	2,326,786	1,548,801
Operational risk	13,795,458	14,019,747
	218,081,735	222,075,065
Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	20.64%	20.53%
Total tier I regulatory capital as a percentage of total risk weighted assets	13.83%	13.02%

48 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group and further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 5,408 million at 31 December 2012 (2011: AED 4,652 million).

49 ASSETS HELD IN FIDUCIARY CAPACITY

The Group holds assets in a fiduciary capacity and provides custodian services for some of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the Group consolidated financial statements.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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50 RISK MANAGEMENT

Risk management framework:

The complexity in the Group's business operations and diversity of geographical locations 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 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 risk appetite is determined by the Executive Committee (EXCO) and approved by the Board;
- 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;
- The Group's overall risk management policies are managed by the Group Risk management function ("Group Risk"), headed by the General Manager, Risk ("CRO"). This function is independent of the business divisions; and
- Risk management is embedded in the Group as an intrinsic process.

Group Risk assists senior management in controlling and actively managing the Group's overall risk profile. This function also ensures that:

- Risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- The Group's overall business strategy is consistent with its risk appetite; and
- Appropriate risk management architecture and systems are developed and implemented.

Risk management process:

Through the risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations, are escalated to the management for appropriate and timely action.

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, thereby resulting in a financial loss to the Group. Credit risk also captures 'Credit Concentration risk' and 'Settlement risk', which is the risk of a counterparty failing to deliver on a financial markets transaction at settlement, and 'Residual risk', which arises from an insufficient ability to realise collaterals later.

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 and provisioning guidelines.

50 RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit risk management and structure (continued):

The Board and the Board Credit and Investment Committee ("BCIC") have delegated authority to the Management Credit and Investment Committee ("MCIC") and certain members of the senior management to facilitate and effectively manage the business. A chain of specific delegated limits are also 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.

Independent functions within Group Risk manage credit risks on the corporate and consumer portfolios.

Management of corporate credit risk:

The process for 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, customers' creditworthiness, sources of re-payment, prevailing and potential macro-economic factors, industry trends and also 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 collaterals;

- Borrower risk grading – Internal rating models have been developed and implemented across various business segments of the bank to assess the credit quality of the borrowers. The bank uses these models to assign internal risk grades to these borrowers on the bank's rating Masterscale. Rating grades are divided into five primary grades and five sub grades within each primary grade. All borrowers are mapped to grades based on their probability of default. Highest credit quality customers are classified under primary category 1 and have the lowest probability to default. These borrowers demonstrate a strong capacity to meet financial commitments. Good and acceptable credit quality borrowers have a good or acceptable capacity to meet financial commitments with low default risk. These borrowers are grouped under primary categories 2 and 3. Primary category 4 borrowers have a moderate default risk and demonstrate weak credit quality or are placed on watch list. Borrowers that show signs of impairment are separately classified as substandard, doubtful or loss under primary category 5. The internal rating grades are also mapped on a scale of 1 to 5 in accordance with the Central Bank of the UAE requirements for categorisation of credit exposures;

- Management of high risk accounts – This includes identification of delinquent accounts, sectors with higher risk and controls applicable for close monitoring. Policies on interest 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.

50 RISK MANAGEMENT (continued)

Credit Risk (continued)

Management of consumer credit risk:

- An independent unit formulates consumer 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;
- Consumer 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; and
- The risk grade of an account reflects the associated risks measured by the delinquency history. Application and behavior Probability of Default ("PDs") are used to map consumer exposures to the Bank's Masterscale.

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, assessment of collateral and market intelligence.

The health of the Group's credit portfolio is continuously assessed and monitored on the basis of exception, management information reports and returns generated by the business and credit 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 specialized "Special Loans Group" team handles the management and collection of problem credit facilities.

Group credit risk mitigation strategy:

The Group operates within:

1. Exposure ceilings imposed by the Board / BCIC / MCIC / Management delegated limits;
2. Country limits approved by the Board / BCIC / MCIC / Management delegated limits; and
3. Various sectoral / product ceilings.

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

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the Group, where appropriate, to limit its exposure.

50 RISK MANAGEMENT (continued)

ANALYSIS BY ECONOMIC ACTIVITY FOR ASSETS:

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

	2012 AED 000			2011 AED 000		
	Loans and receivables	**Islamic financing**	**Others**	**Loans and receivables**	**Islamic financing**	**Others**
Agriculture and allied activities	15,070	28,568	-	21,115	457	-
Mining and quarrying	231,871	-	173,159	255,212	-	193,199
Manufacturing	6,014,733	852,248	462,829	6,370,662	384,066	426,143
Construction	7,187,695	602,648	700,589	7,267,404	648,618	859,490
Trade	7,409,856	1,124,815	-	6,878,280	1,217,967	-
Transport and communication	4,835,151	196,213	581,415	4,692,082	183,483	759,644
Services	17,809,207	2,232,591	1,769,172	16,155,526	1,820,396	1,865,557
Sovereign	75,457,317	253,855	3,335,609	60,620,919	251,173	3,314,912
Personal - Retail	19,922,983	11,466,489	-	19,332,707	8,546,485	-
Personal - Corporate	8,229,284	2,210,698	-	9,231,699	1,866,212	-
Real estate	21,789,454	8,527,373	2,198,907	25,838,803	8,042,686	2,430,566
Banks	-	-	20,753,916	-	-	24,471,167
Financial institutions and investment companies	26,558,258	6,204,432	5,446,394	26,359,666	5,039,482	5,032,839
Others	5,914,193	1,028,927	602,387	5,275,191	524,688	619,023
Total assets	201,375,072	34,728,857	36,024,377	188,299,266	28,525,713	39,972,540
Less: Deferred Income	-	(1,347,338)	-	-	(787,648)	-
Less: Allowances for impairment	(14,509,232)	(2,085,951)	(979,418)	(11,484,232)	(1,412,786)	(1,607,096)
	186,865,840	31,295,568	35,044,959	176,815,034	26,325,279	38,365,444

Others includes due from banks, investment securities, trading securities and investments in associates and joint ventures.

50 RISK MANAGEMENT (continued)

Classification of trading securities and investment securities as per their external ratings:

As of 31 December 2012

Ratings	**Designated at fair value through profit or loss**	**Held-to-maturity investment securities**	**Available-for- sale investment securities**	**Trading securities**	**Total**
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**
AAA	-	-	512,893	-	512,893
AA- to AA+	-	117,291	2,645,386	234,975	2,997,652
A- to A+	-	-	2,332,518	95,701	2,428,219
Lower than A-	59,197	141,313	2,580,870	172,688	2,954,068
Unrated	356,370	161,793	5,357,852	717,508	6,593,523
	415,567	420,397	13,429,519	1,220,872	15,486,355

Of which issued by:

	Designated at fair value through profit or loss	**Held-to-maturity investment securities**	**Available-for- sale investment securities**	**Trading securities**	**Total**
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**
Governments	-	177,043	3,017,798	229,334	3,424,175
Public sector enterprises	3,250	141,824	3,123,724	222,930	3,491,728
Private sector and others	412,317	101,530	7,287,997	768,608	8,570,452
	415,567	420,397	13,429,519	1,220,872	15,486,355

50 RISK MANAGEMENT (continued)

As of 31 December 2011

Ratings	Designated at fair value through profit or loss	Held-to-maturity investment securities	Available-for- sale investment securities	Trading securities	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
AAA	-	-	704,000	-	704,000
AA- to AA+	-	164,280	3,448,984	43,149	3,656,413
A- to A+	-	34,291	2,234,751	73,271	2,342,313
Lower than A-	79,010	-	2,950,208	-	3,029,218
Unrated	363,629	160,540	5,744,034	472,259	6,740,462
	442,639	359,111	15,081,977	588,679	16,472,406

Of which issued by:

	Designated at fair value through profit or loss	Held-to-maturity investment securities	Available-for- sale investment securities	Trading securities	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
Governments	-	170,448	3,528,330	49,991	3,748,769
Public sector enterprises	12,791	83,218	2,711,244	66,499	2,873,752
Private sector and others	429,848	105,445	8,842,403	472,189	9,849,885
	442,639	359,111	15,081,977	588,679	16,472,406

50 RISK MANAGEMENT (continued)

Risk gross maximum exposure:

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2012 AED 000	2011 AED 000
Deposits with Central Bank	28,274,614	19,548,183
Due from banks	17,478,447	19,851,579
Loans and receivables	186,865,840	176,815,034
Islamic financing receivables	31,295,568	26,325,279
Trading securities	1,220,872	588,679
Investment securities	14,265,483	15,883,727
Investments in associates and joint ventures	2,080,157	2,041,459
Positive fair value of derivatives	2,218,382	2,398,874
Customer acceptances	6,301,961	3,777,759
Total (A)	**290,001,324**	**267,230,573**
Contingent liabilities	40,569,221	39,667,323
Irrevocable loan commitments	11,580,786	16,483,259
Total (B)	**52,150,007**	**56,150,582**
Total credit risk exposure (A + B)	**342,151,331**	**323,381,155**

بنك الإمارات دبي الوطني
Emirates NBD

50 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets.

31 December 2012

Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date AED 000	Of which past due but not impaired on the reporting date: <30 days AED 000	31-60 days AED 000	61-90 days AED 000	> 90 days AED 000	Of which individually impaired: Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	17,478,447	17,477,425	-	-	-	-	40,479	(5,210)	(34,247)	1,022
Loans and receivables:										
Corporate banking	168,623,444	141,711,965	4,155,453	1,799,625	694,628	3,227,707	26,380,499	(1,897,877)	(7,448,556)	17,034,066
Consumer banking	18,071,396	16,167,283	1,178,459	267,656	208,282	-	9,187,830	(5,363,069)	(3,575,045)	249,716
Treasury - other debt securities	171,000	7,195	-	-	-	-	409,358	-	(245,553)	163,805
Islamic financing receivables	31,295,568	24,025,379	1,210,898	464,166	255,939	2,173,317	5,115,374	(223,477)	(1,726,028)	3,165,869
Trading and investment securities:										
Quoted - Government debt	3,230,357	3,230,357	-	-	-	-	-	-	-	-
Quoted - Other debt securities	7,210,323	7,104,780	-	-	-	-	120,233	-	(14,690)	105,543
Unquoted - Debt securities	874,169	776,236	-	-	-	-	192,761	-	(94,828)	97,933
Other securities	4,171,506	3,587,383	-	-	-	-	1,419,776	-	(835,653)	584,123

50 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS (continued):

31 December 2011

Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date AED 000	Of which past due but not impaired on the reporting date: <30 days AED 000	31-60 days AED 000	61-90 days AED 000	> 90 days AED 000	Of which individually impaired: Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	19,851,579	19,840,130	-	-	-	-	45,701	(3,239)	(31,013)	11,449
Loans and receivables:										
Corporate banking	158,636,786	131,927,993	3,405,230	856,696	707,300	3,452,599	23,895,379	(1,062,122)	(4,546,289)	18,286,968
Consumer banking	17,916,661	15,602,564	1,430,476	335,171	192,273	-	6,738,026	(3,111,546)	(3,270,303)	356,177
Treasury - other debt securities	261,587	161,286	-	-	-	-	340,501	-	(240,200)	100,301
Islamic financing receivables	26,325,279	21,135,948	1,829,350	199,135	406,157	929,352	2,997,977	(84,347)	(1,088,293)	1,825,337
Trading and investment securities:										
Quoted - Government debt	3,633,417	3,633,417	-	-	-	-	-	-	-	-
Quoted - Other debt securities	7,259,674	7,221,263	-	-	-	-	49,966	-	(11,555)	38,411
Unquoted - Debt securities	1,060,550	898,430	-	-	-	-	308,898	-	(146,778)	162,120
Other securities	4,518,765	3,882,581	-	-	-	-	1,377,934	-	(741,750)	636,184

50 RISK MANAGEMENT (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans, the repayment plan of which has been restructured to align with the changed cash flows of the borrower with no other concessions by way of reduction in the amount or interest, but in some instances with improved security. These loans are treated as standard loans and continue to be reported as normal loans.

Past due but not impaired

For corporate loans, the entire outstanding exposure of a facility which has been past due is disclosed. Based on an individual assessment, the Group determines that impairment on the total outstanding is not required considering the borrower's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of borrower's receivables and/or the stage of collection of the amounts owed to the Group. Amounts that were past due and settled in a short period after the balance sheet date due to matters of an operational nature have been excluded.

Definition of impaired financial assets

A counterparty is marked as impaired if:

(a) In case of corporate exposures, the Group considers the counterparty unlikely to pay the full amount outstanding under the original terms of the contract due to one of the following conditions:

- A material credit obligation has been put on non-accrual status;
- Distressed restructuring of a credit obligation;
- Selling of a credit obligation at an economic loss; or
- The Group or a third party has filed for the counterparty's bankruptcy.

(b) In case of consumer, if the exposure is past due for more than 90 days.

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.

Assessment of specific impairment

Corporate loans: The Group determines the impairment appropriate for each individually significant loan or advance on an individual basis in line with Central Bank of the UAE and IFRS requirements. The Group classifies those accounts where recovery is considered doubtful and ensures provisions are made accordingly. The impairment losses are evaluated on an ongoing basis. Credit exposures are classified by exercising mature judgment in line with Central Bank of the UAE regulations and IFRS requirements. Specific impairment is assessed when it shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days. Delinquent accounts are broadly classified as Substandard, Doubtful or Loss. The following general guidelines are followed for account classification into non-impaired and impaired:

50 RISK MANAGEMENT (continued)

Impairment assessment (continued)

- Loans and advances which bear normal banking risk, whereby information available to the bank assures repayment as agreed are classified as normal loans;

- Loans and advances which show some weaknesses in the borrower's financial condition and credit worthiness, requiring more than normal attention but not allocation of provisions are classified as Watch-list loans;

- Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard accounts". In general these are credit exposures where agreed payments of principal and/or interest are more than 90 consecutive days in arrears;

- Those accounts where full recovery of interest and principal seems doubtful on the basis of information available, leading generally to a loss of part of these loans are classified as "Doubtful accounts"; and

- Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss accounts".

All accounts classified as "Sub Standard", "Doubtful" and "Loss" constitute "Non- Performing Accounts" and, unless it is believed that the debt can be recovered by the business units, where appropriate, the debt is then transferred to the Special Loans Group (the "SLG"), a unit that specializes in remedial management. The remedial management of accounts and the booking of provisions for accounts not transferred to the SLG continue to be the responsibility of the individual business unit.

Assessment of collective impairment

Provisions for collective impairment are made based on the IFRS and Central Bank of the UAE guidelines. Impairments that cannot be identified with an individual loan are estimated on a portfolio basis. The Group has adopted the following methodologies for determining the collective portfolio impairment provisions:

Corporate loans: Historical loss rates for different industry sectors are considered to determine the collective impairment provisions for the corporate portfolios. To ensure that the impact of economic cycles are 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 loans: Criteria for provisions is based on products, namely, credit cards, mortgages, auto loans and other consumer loans. All consumer loans are classified as non-performing at more than 90 days past due and provisions are made in line with the Group's income and loss recognition policies as per IFRS as well as the Central Bank of the UAE guidelines.

Collective impairment provisions for the consumer portfolios are determined based on a flow rates methodology. Flow rates for various consumer 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.

50 RISK MANAGEMENT (continued)

Impairment assessment (continued)

Write offs

Corporate: Facilities where partial loss of principal is expected and full recovery of interest and fees is not expected or which are overdue for 180 days or more are transferred on a case-by-case basis to the Specialized Loans Group for specialized remedial management and, where appropriate, written off as approved by the Board.

Consumer: Consumer loans are written off in the event of a compromise settlement agreed between the Group and the customer.

The Group generally waits until all legal and other remedies are exhausted before writing-off fully provisioned loans.

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 collateral.

Acceptable collateral includes deposits marked with lien, mortgages 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 credit policy.

Collaterals are revalued as a general rule as per the Group's credit 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.

Market risk

Market risk is the potential for adverse changes in the market value of portfolios and positions in financial instruments resulting from changes in market variables such as foreign exchange rates, interest rates, equity prices, commodity prices and their respective implied volatilities and correlations.

The Group separates exposures to market risk into trading and non-trading portfolios. Trading portfolios include those positions held with trading intent arising from market-making, position-taking and other marked-to-market positions so designated. Non-trading portfolios include positions other than those with trading intent that arise from the interest rate management of Group's consumer and commercial banking assets and liabilities, financial investments designated as available for sale and held to maturity. The Group transacts in a diverse set of financial instruments, both physical and derivatives, that include securities, currencies, commodities and equities.

As part of the Group's enterprise-wide risk management framework, extensive governance and management processes are applied in the market risk taking activities.

50 RISK MANAGEMENT (continued)

Market Risk (continued)

Market risk management is designed to mitigate the amount of potential losses on open positions which may arise due to adverse changes in market variables. Included in the governance framework are:

- Oversight by senior management and Board committees such as Group Asset Liability Management Committee (ALCO), Board Risk Committee (BRC) and Board Credit and Investment Committee (BCIC);
- Independent valuation of trading positions and measurement of market risk;
- A comprehensive set of policies;
- Monitoring a wide range of risk metrics appropriate for the respective trading portfolios such as Value-at-Risk (VaR) and risk sensitivities; and
- Annual approval by the Board of a set of risk limits with appropriate monitoring, reporting and limit excess escalation procedures.

The Group uses appropriate and independently validated market models for valuation and risk measurement of its vanilla positions and liquid structured products and receives regular market information from independent common market data providers in order to measure and monitor market risk. Group Market Risk has well-defined policies, procedures and trading limits in place to ensure oversight of Treasury's day-to-day operations, in accordance with the Board's defined risk appetite. These are reviewed periodically to ensure that they remain in line with the Group's general market risk philosophy. In addition to its internal policy and procedures, the Group is required to comply with the guidelines and regulations of applicable jurisdictions it operates in.

Group Market Risk is a function independent of business/risk taking activities, and reports to the Chief Risk Officer (CRO). All market risk limits are approved by BCIC and delegated through Group ALCO to Group's Global Markets and Treasury division ("Treasury"). Any new limits or extensions to existing limits are reviewed and if appropriate, supported by Group Market Risk before being proposed to ALCO for endorsement and the BCIC for approval. This ensures that all limits are approved and delegated in close consultation and concurrence with Group Market Risk. All limit breaches are recorded by Group Market Risk and reported to the CRO, Head of Group Treasury and the responsible Desk Head and, where appropriate, to BCIC. Treasury must provide adequate explanation for any limit breaches and the strategy to remedy the breaches. All limit breaches and related information are reported to ALCO on monthly basis.

Group Market Risk monitors limit utilisation on a daily basis through a multi-layered Limit Monitoring System which uses data and reports from the treasury systems. Depending on the trading portfolio and as appropriate, Group Market Risk uses metrics including Stop-Loss limits, interest rate sensitivity measures such as Present Value of 1 bps shift in interest rates (PV01), Dollar/Dirham Value of 1 bps shift in interest rates (DV01), open position measures such as Net Open Position (NOP), futures contracts, other notional measures, option premium limits, risk sensitivity metrics such as option Greeks, concentration and liquidity where appropriate, and VaR, both Total and by Asset class.

Limit monitoring reports are prepared on a daily basis and the historical utilisation for all limit exposures are presented for periodic senior management review. This forms part of the monthly ALCO pack which is provided to senior management.

Foreign exchange risk hedging strategies are used to ensure that positions are always within established limits. The Group has a conservative policy towards foreign exchange risk and has set limits on positions by currency. Foreign exchange risk is measured using position reports showing the net long or short position for currencies, which are monitored on a real-time basis. Foreign exchange risk is actively managed using spot and forward foreign exchange instruments.

50 RISK MANAGEMENT (continued)

Trading Book oversight by Group Market Risk

The Group has a conservative trading philosophy, which is governed by well-defined policies, processes and a market risk limit structure. All new products are only authorized and approved by senior management if adequate infrastructure has been assured such as independently validated pricing and risk models with appropriate market rate inputs to the models and appropriate Treasury operations procedures to settle the product. Policies are reviewed and revised, and if required presented to the BRC for approval on a regular basis. Trading risk limits are reviewed annually and approved by the Board. Treasury is responsible for managing trading risk exposure within the approved trading risk limits. These limits are set appropriate to the revenue targets and the balance sheet of the Bank and in line with the Bank's risk appetite. Systems and procedures are in place to monitor and report related exposure on a daily basis.

To capture the multi-dimensional aspects of market risk, a number of metrics including VaR as an overall risk measure and a number of risk measures appropriate to the trading portfolios are used. The Bank has upgraded the VaR system for Value-at-Risk calculations, scenario building, and stress testing. The VaR is calculated for specific asset classes and in Total using the Historical Simulation method and measured at the 99% confidence level over a specified horizon (holding period).

The VaR system has been configured to highlight the independent impact of the market risk factors that contributes to total VaR. Thus the Bank measures VaR by the following risk types:

- Interest rate VaR
- Foreign Exchange VaR
- Equity VaR
- Commodity VaR
- Total VaR

The year-end VaR numbers reported below have been derived using the following configuration:

- Confidence level : 99%
- Holding period : 1 day
- Methodology: Historical Simulation using 2 years of historical data

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

50 RISK MANAGEMENT (continued)

Trading book managed by Market Risk Management (continued)

Total Value at Risk

	2012 AED 000	2011 AED 000
Average	6,096	5,692
Minimum	987	1,055
Maximum	15,290	21,115
Balance as at 31 December	3,293	1,123

In the current year, the Group implemented a change in the methodology used for the VaR measure from Monte Carlo VaR methodology (MC VaR) to Historical Simulation methodology VaR (HS VaR). This change in methodology will provide a better ability to understand the sources of market risk for the trading portfolio, provide more appropriate stress scenarios and result in better risk management of market risk exposures.

Comparable VaR numbers for 2011 under the two methodologies is reflected in the table below.

Total Value at Risk	2011 HS VaR AED 000	2011 MC VaR AED 000
Average	5,692	5,077
Minimum	1,055	72
Maximum	21,115	22,236
As at 31 December	1,123	3,546

50 RISK MANAGEMENT (continued)

Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks.

The Group wide operational risk policy outlines the approach and the governance structure for the monitoring and managing of operational risks and to ensure compliance with the Basel II requirements. The Group's operational risk framework, as summarized below, is being implemented across all Group entities.

As part of the implementation of the Basel II requirements, the Group's risk management process enables identification, assessment, reporting, management and monitoring of the Group's operational risks. Line management has primary responsibility for managing operational risks with the EXCO, having overall authority to sanction operational risks and approve operational risk mitigation measures.

The Group has set up the Group operational risk function within Group Risk to establish the framework and governance structure set out in the operational risk policy. This function develops and implements the methods for the identification, assessment and monitoring of operational risks throughout the Group and provides regular and comprehensive reporting on operational risks to senior management. The function supports business and other support units to monitor and manage their individual operational risks. Furthermore, the Group operational risk function also provides analysis and reports on operational risks to senior management and conducts independent oversight and monitoring of risks and mitigating measures.

The governance structure of operational risk is regulated through the Group Operational Risk and Compliance Committee ("ORCC"). The ORCC reviews the Group's operational risks on a periodic basis, and the effectiveness of existing controls to mitigate these risks. The ORCC reports to EXCO and requires senior management involvement from every unit and major entity of the Group.

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

- Assessment of any operational risk of a new or amended product or process prior to its implementation. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives;

- Identification of inherent and residual risks across all units and entities of the Group and assessment of control efficiencies and estimation of probabilities and potential impact of the operational risks. The identified risks are monitored and reassessed frequently by the line management;

- 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 the 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 organisation's mission;

50 RISK MANAGEMENT (continued)

Operational risk (continued)

- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy; and

- 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.

Liquidity risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they come due (Structural Funding Risk), or the inability to convert assets into cash at reasonable prices (Market Liquidity Risk). The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure

The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments (under both normal and stressed conditions) can be met when due, and that access to the wholesale markets is coordinated and cost effective. To this end, the Group maintains a diversified funding base comprising core consumer and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Group to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity risk is managed centrally by the Group ALCO where liquidity risk is a standing agenda item. Group ALCO comprises of the CEO, CFO, CRO, and the heads of all major lines of business (Treasury, Wholesale Banking and Consumer and Wealth Management), and is the central authority for identifying and managing such risk. Liquidity and ALM Function in Group Finance is responsible for liquidity measurement, monitoring and control and reports risk exposures independently to the Group ALCO.

In case of operating subsidiaries and overseas branches that are subject to additional liquidity limits imposed by its local regulator, the subsidiary or the overseas branch head retains the responsibility for managing its overall liquidity within the regulatory limit, in coordination with the Group Treasury. Group Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits.

Policies and Procedures

The Group ALCO, through the Treasury operates a centralized governance and control process that covers the Group's liquidity risk management activities. The subsidiaries coordinate their capital and wholesale market funding at optimal pricing through Treasury, under the oversight and direction of the Group ALCO.

50 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Policies and Procedures (continued)

Specifically, liquidity and funding management process includes:

- projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- mis-match analysis between assets and liabilities for different periods with a focus on shorter time frames. These gap reports are based on contractual cash flow, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments;
- monitoring balance sheet liquidity and advances to deposits ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of distress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimising adverse long-term implications for the business.

Liquidity risk monitoring

All funded liquidity risk positions are monitored and evaluated by Liquidity and ALM Function in Group Finance to identify mis-matches 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 the Treasury function that is responsible for maintaining diversified funding sources within capital and money markets.

The Group applies a prudent mix of liquidity controls which provide 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 managing 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 / concentrations;
- Varied funding programs;
- Investor diversification; and
- Mix of channels (Consumer Vs Corporate) and liability products.

50 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Liquidity risk mitigation

The Group 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. The Group maintains adequate liquidity buffers consisting of high credit quality (minimum AA-) investment securities and Central Bank CDs, which can be monetized at short notice and minimal cost. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The Group ALCO, in line with the best practices, recognizes that users and providers of liquidity as a resource should be compensated in 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 liabilities. These processes are embedded into product pricing decisions and performance measurement systems. The Liquidity and ALM Function in Group Finance in conjunction with the Group ALCO manages and calibrates the FTP system for the Group, in the light of business strategies or market movements.

The Group uses cash-flow stress testing as part of its control processes to assess liquidity risk. The Group does not manage liquidity through the explicit allocation of capital as, in common with standard industry practice, this is not considered to be an appropriate or adequate mechanism for managing these risks. The Group recognizes that a strong capital base helps to mitigate liquidity risk both by providing a capital buffer to allow an entity to raise funds and by serving to reduce the credit risk taken by providers of funds to the Group.

50 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES:

The table below summarizes the maturity profile of the Group's assets and liabilities:

31 December 2012 **ASSETS**	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	Undated and Over 5 years AED 000	Total AED 000
Cash and deposits with Central Bank	24,521,862	6,250,000	-	-	-	30,771,862
Due from banks	13,085,557	1,897,835	1,255,182	1,135,462	104,411	17,478,447
Loans and receivables	96,825,469	10,631,222	22,841,439	24,870,339	31,697,371	186,865,840
Islamic financing receivables	9,036,314	1,242,242	5,670,160	6,234,620	9,112,232	31,295,568
Trading securities	-	92,819	395	258,293	869,365	1,220,872
Investment securities	768,852	3,334,429	3,565,344	2,293,824	4,303,034	14,265,483
Investments in associates and joint ventures	-	-	-	-	2,080,157	2,080,157
Positive fair value of derivatives	136,242	447,889	646,769	367,187	620,295	2,218,382
Investment properties	-	-	-	-	1,138,731	1,138,731
Customer acceptances	6,109,757	192,204	-	-	-	6,301,961
Property and equipment	-	-	-	-	2,469,156	2,469,156
Goodwill and Intangibles	-	-	-	-	5,751,018	5,751,018
Other assets	2,191,161	1,239,211	893,062	-	2,115,440	6,438,874
TOTAL ASSETS	152,675,214	25,327,851	34,872,351	35,159,725	60,261,210	308,296,351

50 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued):

31 December 2012 **LIABILITIES**	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	Undated and Over 5 years AED 000	Total AED 000
Due to banks	18,680,334	3,488,493	-	-	-	22,168,827
Customer deposits	131,325,380	29,715,403	11,934,515	168,781	3,174,079	176,318,158
Islamic customer deposits	18,933,504	9,456,992	9,219,793	-	-	37,610,289
Repurchase agreements with banks	72,392	658,481	-	-	-	730,873
Debt issued and other borrowed funds	2,508,591	1,917,829	2,752,547	5,615,901	4,395,924	17,190,792
Sukuk payable	-	-	-	3,673,000	-	3,673,000
Negative fair value of derivatives	122,237	444,359	511,062	413,933	542,553	2,034,144
Customer acceptances	6,109,757	192,204	-	-	-	6,301,961
Other liabilities	2,298,832	3,337,128	-	133,771	-	5,769,731
Total equity	-	-	-	-	36,498,576	36,498,576
TOTAL LIABILITIES AND EQUITY	180,051,027	49,210,889	24,417,917	10,005,386	44,611,132	308,296,351
OFF BALANCE SHEET						
Letters of Credit and Guarantees	8,823,965	10,954,476	18,520,700	-	-	38,299,141
31 December 2011						
ASSETS	128,232,630	25,247,329	44,414,679	33,730,241	52,988,507	284,613,386
LIABILITIES AND EQUITY	169,436,658	52,816,849	8,575,565	14,712,896	39,071,418	284,613,386
OFF BALANCE SHEET ITEMS	11,352,933	7,105,731	16,846,077	-	1,912,676	37,217,417

50 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES:

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2012

	Carrying amount AED 000	Gross nominal outflows AED 000	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
Financial liabilities							
Due to banks	22,168,827	(22,303,989)	(18,699,218)	(3,604,771)	-	-	-
Customer deposits	176,318,158	(178,841,477)	(132,269,751)	(29,912,013)	(13,121,465)	(282,143)	(3,256,105)
Islamic customer deposits	37,610,289	(37,716,279)	(18,955,701)	(9,524,621)	(9,235,957)	-	-
Repurchase agreements with banks	730,873	(735,748)	(76,951)	(658,797)	-	-	-
Debt issued and other borrowed funds	17,190,792	(18,826,178)	(2,613,998)	(2,210,130)	(3,413,033)	(6,126,807)	(4,462,210)
Sukuk payable	3,673,000	(4,369,342)	(40,679)	(122,035)	(325,428)	(3,881,200)	-
	257,691,939	(262,793,013)	(172,656,298)	(46,032,367)	(26,095,883)	(10,290,150)	(7,718,315)
Letters of credit and guarantees	38,299,141	(38,299,141)	(15,214,014)	(6,594,005)	(16,491,122)	-	-
Irrevocable loan commitments	11,580,786	(11,580,786)	(4,612,213)	(6,968,573)	-	-	-

50 RISK MANAGEMENT (continued)

As at 31 December 2011

	Carrying amount AED 000	Gross nominal outflows AED 000	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
Financial liabilities							
Due to banks	26,105,233	(26,136,680)	(22,224,782)	(3,911,898)	-	-	-
Customer deposits	154,013,407	(157,097,126)	(118,460,896)	(24,850,532)	(1,734,818)	(12,050,880)	-
Islamic customer deposits	39,300,646	(39,311,906)	(23,339,082)	(10,440,035)	(4,450,917)	(1,081,872)	-
Repurchase agreements with banks	2,519,660	(2,539,506)	(1,863,968)	(12,549)	(662,989)	-	-
Debt issued and other borrowed funds	15,636,867	(16,215,131)	(1,716,767)	(6,822,998)	(2,564,970)	(1,592,975)	(3,517,421)
Sukuk payable	1,239,181	(1,242,381)	(3,200)	(1,239,181)	-	-	-
	238,814,994	(242,542,730)	(167,608,695)	(47,277,193)	(9,413,694)	(14,725,727)	(3,517,421)
Letters of credit and guarantees	37,217,417	(37,217,417)	(11,231,252)	(6,984,841)	(16,868,636)	-	(2,132,688)
Irrevocable loan commitments	16,483,259	(16,483,259)	(9,416,612)	(3,099,614)	(3,967,033)	-	-

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50 RISK MANAGEMENT (continued)

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book ('IRRBB') is defined as the exposure of the non-trading products of the Group to interest rates. Non-trading portfolios include all banking book positions that arise from the interest rate on the Group's consumer and commercial banking assets and liabilities, and financial investments designated as available for sale and held to maturity. IRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of prepayments in consumer loans, and from behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

In order to manage this risk optimally, IRRBB in non-trading portfolios is transferred to Treasury under the supervision of the Group ALCO, through Funds Transfer Pricing (FTP) Systems. Group ALCO is required to regularly monitor all such interest rate risk positions to ensure they comply with interest rate risk limits.

Liquidity and ALM Function in Group Finance ensures that data inputs are adequately specified (commensurate with the nature and complexity of the Group's holdings) with regard to rates, maturities, re-pricing, embedded options, and other details to provide a reasonably accurate portrayal of changes in economic value or earnings. Liquidity and ALM Function in Group Finance also ensures that systems assumptions (used to transform positions into cash flows) are reasonable, properly documented, and stable over time. Material changes to assumptions are documented, justified, and approved by Group ALCO.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating 200 basis point parallel shifts to the yield curve(s), and assessing the corresponding impact on its Net Interest Income.

	As at 31 December 2012		As at 31 December 2011	
	Amount AED 000	Variance AED 000	Amount AED 000	Variance AED 000
Rates Up 200 bp	6,706,644	909,754	7,329,097	1,070,197
Base Case	5,796,890	-	6,258,900	-
Rates Down 200 bp	5,359,084	(437,806)	5,328,846	(930,054)

The interest rate sensitivities set out in the table above are based on simplified scenarios i.e. the projections above assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential effect on net interest income of some rates changing while others remain unchanged. This effect does not incorporate actions that would be taken by Treasury or in the business units to mitigate the impact of this interest rate risk. In practice, Treasury seeks proactively to change the interest rate risk profile to minimize losses and optimize net revenues. The projections make other simplifying assumptions too, including that all positions run to maturity.

To measure and manage interest rate risk and its possible impact on Economic Value of the entity, the Group has established internal limits based on the PV01. The interest rate gaps and sensitivity tests (NII and PV01) are measured on a monthly basis by Liquidity and ALM Function in Group Finance, and monitored by Group ALCO.

50 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis:

31 December 2012:	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Bank	4,845,562	2,955,000	2,250,000	4,000,000	-	16,721,300	30,771,862
Due from banks	6,397,628	5,847,430	750,113	365,497	445,696	3,672,083	17,478,447
Loans and receivables	109,374,773	41,321,597	13,333,689	4,036,690	18,768,502	30,589	186,865,840
Islamic financing receivables	7,021,724	2,798,424	4,377,921	3,644,818	13,209,041	243,640	31,295,568
Trading securities	-	-	47,504	45,315	759,844	368,209	1,220,872
Investment securities	84,256	1,268,949	2,018,438	1,325,272	6,995,536	2,573,032	14,265,483
Investments in associates and joint ventures	-	-	-	-	-	2,080,157	2,080,157
Positive fair value of derivatives	-	-	-	-	-	2,218,382	2,218,382
Investment properties	-	-	-	-	-	1,138,731	1,138,731
Customer acceptances	-	-	-	-	-	6,301,961	6,301,961
Property and equipment	-	-	-	-	-	2,469,156	2,469,156
Goodwill and Intangibles	-	-	-	-	-	5,751,018	5,751,018
Other assets	-	-	-	-	-	6,438,874	6,438,874
TOTAL ASSETS	127,723,943	54,191,400	22,777,665	13,417,592	40,178,619	50,007,132	308,296,351

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50 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis (continued):

31 December 2012:	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
LIABILITIES AND EQUITY							
Due to banks	14,080,525	3,602,876	1,966,683	1,521,811	-	996,932	22,168,827
Customer deposits	49,543,966	30,437,257	15,171,778	14,543,565	14,918,297	51,703,295	176,318,158
Islamic customer deposits	9,012,359	9,606,091	10,128,634	886,990	1,105,216	6,870,999	37,610,289
Repurchase agreements with banks	72,392	-	658,481	-	-	-	730,873
Debt issued and other borrowed funds	2,059,178	9,092,024	630,936	477,226	4,931,428	-	17,190,792
Sukuk payable	-	-	-	-	3,673,000	-	3,673,000
Negative fair value of derivatives	-	-	-	-	-	2,034,144	2,034,144
Customer acceptances	-	-	-	-	-	6,301,961	6,301,961
Other liabilities	-	-	-	-	-	5,769,731	5,769,731
Total equity	-	-	-	-	-	36,498,576	36,498,576
TOTAL LIABILITIES AND EQUITY	74,768,420	52,738,248	28,556,512	17,429,592	24,627,941	110,175,638	308,296,351
ON BALANCE SHEET GAP	52,955,523	1,453,152	(5,778,847)	(4,011,999)	15,550,677	(60,168,506)	-
OFF BALANCE SHEET GAP	(2,785,811)	(342,744)	227,061	(64,189)	2,965,683	-	-
INTEREST RATE SENSITIVITY GAP – 2012	50,169,712	1,110,408	(5,551,786)	(4,076,188)	18,516,360	(60,168,506)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2012	50,169,712	51,280,120	45,728,334	41,652,146	60,168,506	-	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2011	32,645,555	37,142,189	36,141,239	33,959,809	60,562,335	-	-

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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50 RISK MANAGEMENT (continued)

Reputational Risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution.

Reputational risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. The Group has controls to ensure a positive perception of the Group.

Regulatory/Compliance Risk

Regulatory/Compliance risk is the risk of sanctions and/or financial losses due to the failure to comply with applicable laws, regulations or guidelines.

The Group has an independent compliance function, with necessary mandate and authority to enforce compliance on a Group wide basis. This includes compliance within various jurisdictions where the Group operates and active monitoring and reporting on Anti Money Laundering (AML) issues and sanctions. The Group also has policies in place at Group-level as well as in the international jurisdictions to meet specific regulatory requirements, including a well embedded "Know-Your-Customer" (KYC) policy at the operational level.

Business Risk

Business risk refers to the risk of loss due to unexpected changes in the recent and / or future business volumes and margins, caused by changes in the competitive environment, general business cycle effects and macro-economic disruptions.

Business risk includes the earnings at risk perspective related to the Group's earnings and profitability, the reputation risk perspective and the Indemnity Risk perspective. The Group employs, at present, a model to quantify the potential impact resulting from business risk.

Capital management policies and stress testing

The Group adheres to the regulations set out by the Central Bank of the UAE which has confirmed the requirements in relation to Basel II / Pillar 2 in its circular 27/2009, dated 17 November, 2009. Further, the Group is an active member Emirates Banks Association's Committee on Basel and Accounts.

According to the guidelines issued by the Central Bank of the UAE, all banks have to prepare a forward-looking capital adequacy assessment and to submit a comprehensive report annually. Whilst the Group has a robust capital adequacy assessment, monitoring and reporting process, it is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel II and in anticipation of Basel III.

The Group's forward-looking internal capital adequacy assessment process is based on base-case assumptions, reflecting the Group's current financial budget and business expectations under conservative business as usual conditions.

The implemented internal capital adequacy assessment process is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the form of cushion against unexpected losses. The Group's quantification models have been subject to external scrutiny and validation, especially with a focus on Credit risk, risk concentrations and correlations.

The Group measures two levels of adequacy:

- the capability to withstand unexpected losses at a confidence level of 80% through projected net-income post dividend and provisions; and
- the capability to withstand unexpected losses at a confidence level of 99.9% through its capital base including projected net-income post dividend and provisions.

with the latter measure being the key measure for the adequacy assessment.

50 RISK MANAGEMENT (continued)

Capital management policies and stress testing (continued)

The Economic Capital demand is based on a set of models, with:

- Credit risk - Monte-Carlo simulation based Portfolio Model for credit Value at Risk;
- Market risk - Market Value at Risk complemented by Basel II / standardized approach;
- Operational risk - Basel II / Standardized Approach;
- Business risk - volatility driven parametric Value at Risk; and
- Interest rate risk / Banking book – Net interest income volatility model (complementary to PV01).

The Credit risk quantification model is predominately based on Basel II compliant Internal Ratings and incorporates correlations and inherent single-name and sector concentration levels. The aggregate capital demand across risk types is based on inter-risk correlation model. Recognizing the importance of Islamic Finance, the models and parameter sets employed have been built to address the specific parameters of such portfolios.

The results of the internal capital adequacy assessment process, quarterly actual assessment as well as the annual multi-year forward-looking forecast are monitored against the Group's Risk Strategy.

The Group employs an Integrated Stress Testing Framework to quarterly assess the potential implications of adverse financial conditions and the development of key ratios under stressful conditions. The outcomes of the Integrated Stress Testing Framework influence the setting of the Bank's risk appetite as part of the Bank's periodical Risk Strategy review. Furthermore the outcomes support the development and adjustment of the Bank's contingency plans and planning.

The Integrated Stress Testing Framework encompasses:

- the forward-looking assessment of economic scenarios, including potential feedback loops and second round effects;
- the measurement of sensitivities against key risk drivers and parameters; and
- the analysis of reverse stress tests modeling events that could cause a significant impact on the Bank, and provides by that a comprehensive analysis on the potential impact in terms of balance sheet structure, financial performance, capitalisation levels and funding profile.

The Bank's stress testing process involves key stake-holders of Group Finance, the Group's economist and the business units in order to develop economically relevant scenarios and include the views of key stakeholders. The results of the quarterly stress testing exercises are discussed at senior management and Board level.

In addition, the Group uses the results of the Integrated Stress Testing Framework to assess the outcome and stability of the employed Economic capital models in order to minimise its Model Risk arising from complex capital and funding modeling.

Internal Audit's role in overall risk management

Internal Audit's reporting lines are independent of management and it reports directly to the Board Audit Committee. It is responsible for providing an independent review of the control environment across the group including all aspects of risk management. The primary objective of Internal Audit is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls to mitigate current and emerging high risks thereby enhancing the control culture within the Group. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

50 RISK MANAGEMENT (continued)

Risk management framework and processes at Emirates Islamic Bank (EIB)

Basic philosophy, methodologies and traditional areas of EIB risk management policies are aligned with the Group's commercial banking risk models, but the unique risk challenges of Islamic banking as well as areas like Sharia non-compliance risk are considered within the ambit of EIB's risk management processes.

There is an independent risk management unit within EIB which works in conjunction with Group Risk.

Key features of risk management in EIB are summarized below:

- Independent risk management ownership at EIB level;
- Dotted line relationships with Group Risk; and
- Group Risk's tools / processes being utilized and acclimatised for use by EIB.

Risk management framework and processes at Dubai Bank

(Term Group in this section refers to Dubai Bank and its subsidiaries whereas the term Bank is used for Dubai Bank only)

Dubai Bank and its subsidiaries were acquired by Emirates NBD in Q4, 2011 and since then the Group is in the process of adopting the Emirates NBD Group Risk Management Framework to effectively manage its Risks. The significant risk categories that the Bank is mainly exposed to are credit, market, liquidity, operational and reputational risk. Emirates NBD Risk Management framework covers the risk governance, ownership structure and accountability for, the effective management of risk within all Dubai Bank.

51 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2012 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

52 OTHER SIGNIFICANT EVENTS

The Group has entered into an agreement with BNP Paribas to acquire its 95.2% stake and 4.8% of the minority stake in BNP Paribas Egypt S.A.E. for USD 500 million. BNP Paribas Egypt has a network of 69 branches throughout the country, 1450 employees, and approximately 200,000 retail and 3,000 corporate clients and its shareholders' equity amounted to EGP 1.9 billion (USD 312 million) as of 30 September 2012.

The transaction is subject to regulatory approval and is expected to close during 2013.

53 COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated where appropriate to conform with the presentation and accounting policies adopted in these financial statements.