# Abu Dhabi Islamic Bank PJSC

INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

31 MARCH 2013 (UNAUDITED)

Abu Dhabi Islamic Bank PJSC

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31 March 2013 (Unaudited)

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ERNST & YOUNG

P.O. Box 136
11th Floor - Al Ghaith Tower
Hamdan Street
Abu Dhabi, United Arab Emirates
Tel: +971 2 417 4400
+971 2 627 7522
Fax: +971 2 627 3383
www.ey.com/me

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF ABU DHABI ISLAMIC BANK PJSC**

*Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (together "the Group") as at 31 March 2013, comprising of the interim consolidated statement of financial position as at 31 March 2013 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

*Scope of review*

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

*Conclusion*

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

Ernst + Young

Signed by:
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

7 May 2013
Abu Dhabi

# INTERIM CONSOLIDATED INCOME STATEMENT
Three months ended 31 March 2013 (Unaudited)

| | Notes | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| Income from murabaha, mudaraba and wakala with financial institutions | | **15,101** | 30,519 |
| Income from murabaha, mudaraba, ijara and other Islamic financing from customers | 5 | **879,251** | 907,706 |
| Investment income | 6 | **48,714** | 23,055 |
| Share of results of associates and joint venture | | **1,603** | 1,354 |
| Fees and commission income, net | 7 | **151,835** | 108,834 |
| Foreign exchange income | | **(11,800)** | 11,984 |
| Income from investment properties | 20 | **2,793** | 2,794 |
| Other income | | **192** | 173 |
| | | **1,087,689** | 1,086,419 |
| **OPERATING EXPENSES** | | | |
| Employees' costs | 8 | **(238,183)** | (224,570) |
| General and administrative expenses | 9 | **(123,419)** | (126,264) |
| Depreciation | | **(31,811)** | (26,546) |
| Provision for impairment, net | 10 | **(185,528)** | (186,094) |
| | | **(578,941)** | (563,474) |
| **PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS** | | **508,748** | 522,945 |
| Distribution to depositors and sukuk holders | 11 | **(168,669)** | (215,648) |
| **PROFIT FOR THE PERIOD** | | **340,079** | 307,297 |
| Attributable to: | | | |
| Equity holders of the Bank | | **339,217** | 307,156 |
| Non-controlling interest | | **862** | 141 |
| | | **340,079** | 307,297 |
| Basic and diluted earnings per share attributable to ordinary shares (AED) | 12 | **0.143** | 0.130 |

The attached notes 1 to 39 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Three months ended 31 March 2013 (Unaudited)

| | Notes | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|---|
| **PROFIT FOR THE PERIOD** | | **340,079** | 307,297 |
| **Other comprehensive (loss) income** | | | |
| *Items that will not be reclassified to consolidated income statement* | | | |
| Net (loss) gain on valuation of investments carried at fair value through other comprehensive income | 29 | **(1,488)** | 3,052 |
| Directors' remuneration | 33 | **(4,200)** | - |
| *Items that may subsequently be reclassified to consolidated income statement* | | | |
| Exchange differences arising on translation of foreign operations | 29 | **(48,118)** | 2,803 |
| Gain (loss) on hedge of foreign operations | 29 | **4,622** | (2,057) |
| Fair value gain on cash flow hedge | 29 | **5,358** | 651 |
| **OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD** | | **(43,826)** | 4,449 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **296,253** | 311,746 |
| Attributable to: | | | |
| Equity holders of the Bank | | **295,391** | 311,605 |
| Non-controlling interest | | **862** | 141 |
| | | **296,253** | 311,746 |

The attached notes 1 to 39 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 March 2013 (Unaudited)

| | *Notes* | *31 March 2013 AED '000* | *Audited 31 December 2012 AED '000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 13 | **11,974,407** | 11,286,903 |
| Balances and wakala deposits with Islamic banks and other financial institutions | 14 | **4,625,941** | 4,121,480 |
| Murabaha and mudaraba with financial institutions | 15 | **7,263,005** | 9,754,937 |
| Murabaha and other Islamic financing | 16 | **24,540,998** | 23,951,777 |
| Ijara financing | 17 | **29,490,760** | 27,244,938 |
| Investments | 18 | **5,562,250** | 4,255,148 |
| Investment in associates and joint venture | 19 | **723,020** | 766,025 |
| Investment properties | 20 | **303,627** | 306,174 |
| Development properties | 21 | **837,381** | 837,381 |
| Other assets | 22 | **2,078,431** | 1,917,943 |
| Property and equipment | | **1,285,775** | 1,221,849 |
| **TOTAL ASSETS** | | **88,685,595** | 85,664,555 |
| **LIABILITIES** | | | |
| Due to financial institutions | 23 | **3,438,002** | 3,133,893 |
| Depositors' accounts | 24 | **63,412,197** | 61,326,147 |
| Other liabilities | 25 | **2,722,205** | 1,874,323 |
| Tier 2 wakala capital | 26 | **2,207,408** | 2,207,408 |
| Sukuk financing instruments | 27 | **4,562,714** | 4,470,902 |
| **Total liabilities** | | **76,342,526** | 73,012,673 |
| **EQUITY** | | | |
| Share capital | 28 | **2,364,706** | 2,364,706 |
| Legal reserve | | **1,756,679** | 1,756,679 |
| General reserve | | **739,030** | 739,030 |
| Credit risk reserve | | **400,000** | 400,000 |
| Retained earnings | | **1,524,528** | 1,189,511 |
| Proposed dividends | 37 | **-** | 600,616 |
| Proposed dividends to charity | | **-** | 4,450 |
| Other reserves | 29 | **(125,676)** | (86,050) |
| Tier 1 sukuk | 30 | **5,629,165** | 5,629,165 |
| **Equity attributable to the equity holders of the Bank** | | **12,288,432** | 12,598,107 |
| Non-controlling interest | | **54,637** | 53,775 |
| **Total equity** | | **12,343,069** | 12,651,882 |
| **TOTAL LIABILITIES AND EQUITY** | | **88,685,595** | 85,664,555 |
| **CONTINGENT LIABILITIES AND COMMITMENTS** | 31 | **12,605,061** | 13,272,351 |

Chairman

Chief Executive Officer

The attached notes 1 to 39 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Three months ended 31 March 2013 (Unaudited)

| | | *Attributable to the equity holders of the Bank* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | *Share capital AED '000* | *Legal reserve AED '000* | *General reserve AED '000* | *Credit risk reserve AED '000* | *Retained earnings AED '000* | *Proposed dividends AED '000* | *Proposed dividends to charity AED '000* | *Other reserves AED '000* | *Tier 1 sukuk AED '000* | *Total AED '000* | *Non-controlling interest AED '000* | *Total equity AED '000* |
| Balance at 1 January 2013 - audited | | 2,364,706 | 1,756,679 | 739,030 | 400,000 | 1,189,511 | 600,616 | 4,450 | (86,050) | 5,629,165 | 12,598,107 | 53,775 | 12,651,882 |
| Profit for the period | | - | - | - | - | 339,217 | - | - | - | - | 339,217 | 862 | 340,079 |
| Other comprehensive loss | | - | - | - | - | (4,200) | - | - | (39,626) | - | (43,826) | - | (43,826) |
| Dividends paid | 37 | - | - | - | - | - | (600,616) | - | - | - | (600,616) | - | (600,616) |
| Dividends paid to charity | | - | - | - | - | - | - | (4,450) | - | - | (4,450) | - | (4,450) |
| Balance at 31 March 2013 - unaudited | | **2,364,706** | **1,756,679** | **739,030** | **400,000** | **1,524,528** | - | - | **(125,676)** | **5,629,165** | **12,288,432** | **54,637** | **12,343,069** |
| | | | | | | | | | | | | | |
| Balance at 1 January 2012 - audited | | 2,364,706 | 1,755,894 | 585,921 | - | 1,311,406 | 577,546 | 1,028 | (28,043) | 2,000,000 | 8,568,458 | 2,609 | 8,571,067 |
| Profit for the period | | - | - | - | - | 307,156 | - | - | - | - | 307,156 | 141 | 307,297 |
| Other comprehensive income | | - | - | - | - | - | - | - | 4,449 | - | 4,449 | - | 4,449 |
| Non-controlling interest arising on a business combination | | - | - | - | - | - | - | - | - | - | - | 47,991 | 47,991 |
| Balance at 31 March 2012 - unaudited | | **2,364,706** | **1,755,894** | **585,921** | - | **1,618,562** | **577,546** | **1,028** | **(23,594)** | **2,000,000** | **8,880,063** | **50,741** | **8,930,804** |

The attached notes 1 to 39 form part of these interim condensed consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
Three months ended 31 March 2013 (Unaudited)

| | Notes | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the period | | **340,079** | 307,297 |
| Adjustments for: | | | |
| Depreciation on investment properties | 20 | **2,547** | 1,382 |
| Depreciation on property and equipment | | **29,264** | 25,164 |
| Share of results of associates | | **(1,603)** | (1,354) |
| Dividend income | 6 | **(2,986)** | - |
| Realised gain on sale of investments carried at fair value through profit and loss | 6 | **(2,116)** | (1,971) |
| Unrealised loss (gain) on investments carried at fair value through profit and loss | 6 | **4,938** | (5,838) |
| Provision for impairment, net | 10 | **185,528** | 186,094 |
| Operating profit before changes in operating assets and liabilities | | **555,651** | 510,774 |
| (Purchase) encashment of Islamic certificate of deposits | | **(148,384)** | 1,251,972 |
| Decrease in balances and wakala deposits with Islamic banks and other financial institutions | | **500** | 208,837 |
| Decrease (increase) in murabaha and mudaraba with financial institutions | | **151,057** | (862,160) |
| (Increase) decrease in murabaha and other Islamic financing | | **(664,896)** | 374,365 |
| Increase in ijara financing | | **(2,291,552)** | (1,290,281) |
| Purchase of investments carried at fair value through profit and loss | | **(795,767)** | (533,790) |
| Proceeds from sale of investments carried at fair value through profit and loss | | **703,951** | 608,355 |
| Increase in other assets | | **(188,752)** | (167,161) |
| Increase (decrease) in due to financial institutions | | **36,412** | (389,224) |
| Increase in depositors' accounts | | **2,087,162** | 2,376,186 |
| Increase (decrease) in other liabilities | | **244,721** | (74,699) |
| Net cash (used in) from operating activities | | **(309,897)** | 2,013,174 |
| **INVESTING ACTIVITIES** | | | |
| Dividend received | | **2,986** | - |
| Purchase of investments at amortised cost | | **(1,228,965)** | (183,524) |
| Proceeds from sale of investments carried at fair value through other comprehensive income | | **9,369** | 227 |
| Additions to development properties | | **-** | (1,752) |
| Purchase of property and equipment | | **(93,190)** | (58,933) |
| Net cash used in investing activities | | **(1,309,800)** | (243,982) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from disposal of sukuk assets - second issue | | **91,812** | - |
| Dividends paid | | **(747)** | (1,880) |
| Net cash from (used in) financing activities | | **91,065** | (1,880) |
| **(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | | **(1,528,632)** | 1,767,312 |
| Cash and cash equivalents at 1 January | | **17,655,720** | 11,392,464 |
| **CASH AND CASH EQUIVALENTS AT 31 MARCH** | 32 | **16,127,088** | 13,159,776 |

Operating cash flows from profit on balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, customer financing, Islamic sukuk and customer deposits are as follows:

| | | | |
|---|---|---|---|
| Profit received | | **797,974** | 952,362 |
| Profit paid to depositors and sukuk holders | | **112,004** | 175,302 |

The attached notes 1 to 39 form part of these interim condensed consolidated financial statements.

## 1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Abu Dhabi Islamic Bank PJSC (“the Bank”) was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

The Bank and its subsidiaries (“the Group”) carry out full banking services, financing and investing activities through various islamic instruments such as Murabaha, Istisna’a, Mudaraba, Musharaka, Ijara, Wakalah, Sukuk etc. The activities of the Bank are conducted in accordance with Islamic Shari’a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

In addition to its main office in Abu Dhabi, the Bank operates through its 76 branches in UAE and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE, Kingdom of Saudi Arabia and the United Kingdom. The interim condensed consolidated financial statements combine the activities of the Bank’s head office, its branches and subsidiaries.

The registered office of the Bank is at P O Box 313, Abu Dhabi, UAE.

The interim condensed consolidated financial statements of the Group were authorised for issued by the Board of Directors on 07 May 2013.

## 2 DEFINITIONS

The following terms are used in the interim condensed consolidated financial statements with the meanings specified:

**Murabaha**
A sale contract, in which the Group sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price consists of the purchasing cost plus a mark-up profit.

**Istisna’a**
A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

**Ijara**
A lease contract whereby the Group (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset either exists currently or to be constructed in future (forward lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

**Qard Hasan**
A non-profit bearing loan enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

**Musharaka**
A contract between the Group and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either on ongoing basis or for a limited time, during which the Group enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

## 2 DEFINITIONS continued

**Mudaraba**
A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

**Wakalah**
A contract between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

**Sukuk**
Certificates which are equal in value and represent common shares in the ownership of a specific physical asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

## 3 BASIS OF PREPARATION

### 3.1.a Statement of compliance
The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and in compliance with general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board.

### 3.1.b Accounting convention
The interim condensed consolidated financial statements have been prepared under the historical cost convention except for investments carried at fair value through profit or loss, investments carried at fair value through other comprehensive income, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land which has been carried at revalued amount.

The interim condensed consolidated financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Bank and all values are rounded to the nearest thousand AED except where otherwise indicated.

### 3.1.c Basis of consolidation
The interim condensed consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

| | *Activity* | *Country of incorporation* | *Percentage of holding* | |
|---|---|---|---|---|
| | | | ***2013*** | *2012* |
| Abu Dhabi Islamic Securities Company LLC | Equity brokerage services | United Arab Emirates | **95%** | 95% |
| Burooj Properties LLC | Real estate investments | United Arab Emirates | **100%** | 100% |
| ADIB Invest 1 | Equity brokerage services | BVI | **100%** | 100% |
| Kawader Services Company LLC | Manpower supply | United Arab Emirates | **100%** | 100% |
| Saudi Installment House | Retail finance | Kingdom of Saudi Arabia | **51%** | 51% |
| ADIB (UK) Limited | Islamic banking | United Kingdom | **100%** | 100% |
| ADIB Sukuk Company Ltd* | Special purpose vehicle | Cayman Island | **-** | - |
| ADIB Sukuk Company II Ltd* | Special purpose vehicle | Cayman Island | **-** | - |
| ADIB Capital Invest 1 Ltd* | Special purpose vehicle | Cayman Island | **-** | - |

* The Bank does not have any direct holding in ADIB Sukuk Company Ltd, ADIB Sukuk Company II Ltd or ADIB Capital Invest 1 Ltd and each are considered to be a subsidiary by virtue of control.

**3 BASIS OF PREPARATION** continued

**3.1.c Basis of consolidation** continued

A subsidiary is an entity over which the Bank exercises control, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. These interim condensed consolidated financial statements include the operations of the subsidiaries over which the Bank has control. Subsidiaries are fully 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.

The interim condensed financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of the profit or loss and net assets not held by the Bank and are presented separately in the interim consolidated income statement, comprehensive income and within equity in the interim consolidated statement of financial position, separately from the Bank shareholders' equity.

**3.2 Standards issued but not yet effective**

The following new standards / amendments to standards which were issued and are not yet effective for the period ended 31 March 2013 have not been applied while preparing these interim condensed consolidated financial statements:

*IAS 32 Offsetting Financial Assets and Financial Liabilities – 1 January 2014*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

**3.3 Significant judgements and estimates**

The preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgment, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2012.

## 4 ACCOUNTING POLICIES

The interim condensed consolidated financial statements do not contain all information and disclosures for full consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2012. In addition, results for the three months ended 31 March 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012.

As required by Securities and Commodities Authority of UAE ("SCA") notification no. 2635/2008 dated 12 October 2008, accounting policies related to financial instruments as disclosed in the annual consolidated financial statements are provided below:

During the period, the Group has adopted the following new standards / amendments to standards effective for the annual periods beginning on or after 1 January 2013:

IFRS 7 : Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendment)
IFRS 10 : Consolidated Financial Statements
IFRS 11 : Joint Arrangements
IFRS 12 : Disclosure of Interests in Other Entities
IFRS 13 : Fair Value Measurement
IAS 1 : Presentation of financial statements (Amendment)
IAS 19 : Employee Benefits (Amendment)
IAS 27 : Separate Financial Statements (Amendment)
IAS 28 : Investment in Associates and Joint Ventures (Amendment)

However the new standards / amendments to standards did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the period. A brief description of the change is also provided below:

**IFRS 7: Financial Instruments: Disclosures -** ***Offsetting Financial Assets and Financial Liabilities (Amendment)***
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

The amendment did not have any impact on the accounting policy, interim condensed consolidated financial position and performance of the Group during the period.

**IFRS 10: Consolidated financial statements** replaces part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation – Special Purpose Entities. The new standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. IFRS 10 sets the principle of control in three elements of control (a) power over the investee, (b) exposure, or rights, to variable return from involvement with the investee, and (c) the ability to use power over the investee to affect the amount of investor's return.

Management carried out a detailed review on the Bank's connected entities and the funds managed by the Bank in view of the new definition and guidance in IFRS 10 and determined that the Group's exposure to funds indicate that the Group is an agent and concludes that it does not control the funds and thus not consolidated.

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**IFRS 11: Joint Arrangements** replaces IAS 31 interest in Joint Ventures and SIC 13 Jointly controlled Entities – Non Monetary Contribution by Ventures. The new standard deals with how a joint arrangement of which two or more parties have joint control should be classified and requires that joint ventures are accounted for using the equity method of accounting.

The amendment did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the period.

**IFRS 12: Disclosures of interests in other entities** includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint ventures, associates and unconsolidated structured entities when the reporting entity has a special relationship with those other entities.

The additional disclosure related to non-controlling interest in subsidiaries will be provided in the annual financial statements for the year ending 31 December 2013. The amendment did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the period.

**IFRS 13: Fair value measurement** 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 amendment did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the period.

**IAS 1: Presentation of financial statements (Amendment)** prescribes the information to be presented in the other comprehensive income. The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature and group into those that, in accordance with other IFRSs will not be reclassified subsequently to statement of income and will be reclassified subsequently to statement of income when specific conditions are met.

The amendment impacts the presentation of the statement of comprehensive income and did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the period.

**IAS 19: Employee Benefits (Amendment)** requires recognition of changes in defined benefit obligations and the fair value of plan asset when they occur, with all actuarial gains and losses recognized immediately through other comprehensive income.

The amendment did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the period as the defined benefit obligations are not materially significant.

**IAS 27: Separate Financial Statements (Amendment)** requires, when an entity prepare separate financial statements, to account for investment in subsidiaries, joint ventures and associates at cost or in accordance with IFRS 9 Financial Instrument.

The amendment did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the period as this is not relevant for the Group's financial statements.

**IAS 28: Investment in Associates and Joint Ventures (Amendment)** prescribes the accounting for investments in associates and sets out the requirement for the application of the equity method when accounting for investments in associates and joint ventures.

The amendment did not have any impact on the accounting policy, consolidated financial position and performance of the Group.

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial Instruments**
***Recognition and Measurement***
Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:
- Customer financing;
- Balances and wakala deposits Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments; and
- Sharia compliant alternatives of derivatives.

The Group's customer financing comprise the following:
- Murabaha and other Islamic financing; and
- Ijara financing.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

***Classification***
*Financial assets at amortised cost*
Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuks, are measured at amortised cost, if both the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

*Financial assets at fair value through profit or loss ("FVTPL")*
Investments in equity instruments are classified as FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Financial asset are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets that are designated as FVTPL on initial recognition is not allowed.

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial Instruments** continued

***Classification*** continued
*Financial assets at fair value through other comprehensive income (“FVTOCI”)*
At initial recognition, the Group can make an irrevocable election (on instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

A financial asset is FVTPL if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is part of identified financial instrument that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a Shari'a compliant alternatives of derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

***Measurement***
*Financial assets or financial liabilities carried at amortised cost*
Financial assets at amortised cost including customer financing and investment in sukuks are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Balances and wakala deposits with Islamic banks and other financial institutions are stated at amortised cost less amounts written off and provision for impairment, if any.

Murabaha and mudaraba with financial institutions are stated at amortised cost (which excludes deferred income or expected profits) less provisions for impairment.

Islamic financing consist of murabaha receivables, mudaraba, Istisna’a, Islamic covered cards (murabaha based) and other Islamic financing.

Istisna’a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing are stated at amortised cost (which excludes deferred income) less any provisions for impairment.

The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial Instruments** continued

***Measurement*** continued
*Financial assets at fair value through profit or loss ("FVTPL")*
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

*Financial assets at fair value through other comprehensive income ("FVTOCI")*
Investments in equity instruments are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity. Where the assets are disposed off, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. As per the requirement of IFRS 9, financial assets measured at FVTOCI are not tested for impairment.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions
- net asset values (in limited circumstances)

Dividends on investment in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of investment.

## 5 INCOME FROM MURABAHA, MUDARABA, IJARA AND OTHER ISLAMIC FINANCING FROM CUSTOMERS

| | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|
| Vehicle murabaha | **104,929** | 124,704 |
| Goods murabaha | **59,901** | 54,239 |
| Share murabaha | **207,510** | 185,388 |
| Commodities murabaha – Al Khair | **65,045** | 58,748 |
| Other murabaha | **22,750** | 12,154 |
| Total murabaha | **460,135** | 435,233 |
| Mudaraba | **22,970** | 41,715 |
| Ijara | **341,258** | 377,228 |
| Islamic covered cards (murabaha) | **51,758** | 48,919 |
| Istisna'a | **3,130** | 4,611 |
| | **879,251** | 907,706 |

## 6 INVESTMENT INCOME

| | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|
| Income from Islamic sukuk | **44,241** | 13,476 |
| Income from other investment assets | **4,309** | 1,770 |
| Dividend income | **2,986** | - |
| Realised gain on sale of investments carried at fair value through profit and loss | **2,116** | 1,971 |
| Unrealised (loss) gain on investments carried at fair value through profit and loss | **(4,938)** | 5,838 |
| | **48,714** | 23,055 |

## 7 FEES AND COMMISSION INCOME, NET

| | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|
| **Fees and commission income** | | |
| Fees and commission income on cards | **68,659** | 58,976 |
| Trade related fees and commission | **23,949** | 25,789 |
| Accounts services fees | **11,327** | 11,687 |
| Projects and property management fees | **11,705** | 9,463 |
| Risk participation and arrangement fees | **55,237** | 17,790 |
| Brokerage fees and commission | **6,564** | 5,839 |
| Other fees and commissions | **20,490** | 15,366 |
| Total fees and commission income | **197,931** | 144,910 |

## 7 FEES AND COMMISSION INCOME, NET continued

| | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|
| **Fees and commission expenses** | | |
| Card related fees and commission expenses | **(37,466)** | (28,958) |
| Other fees and commission expenses | **(8,630)** | (7,118) |
| Total fees and commission expenses | **(46,096)** | (36,076) |
| Fees and commission income, net | **151,835** | 108,834 |

## 8 EMPLOYEES' COSTS

| | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|
| Salaries and wages | **219,037** | 203,639 |
| End of service benefits | **13,172** | 13,276 |
| Other staff expenses | **5,974** | 7,655 |
| | **238,183** | 224,570 |

## 9 GENERAL AND ADMINISTRATIVE EXPENSES

| | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|
| Legal and professional expenses | **12,761** | 21,562 |
| Premises expenses | **39,859** | 38,072 |
| Marketing and advertising expenses | **23,139** | 26,904 |
| Communication expenses | **14,524** | 10,159 |
| Technology related expenses | **11,843** | 15,985 |
| Other operating expenses | **21,293** | 13,582 |
| | **123,419** | 126,264 |

## 10 PROVISION FOR IMPAIRMENT, NET

| | *Notes* | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|---|
| Murabaha and mudaraba with financial institutions | 15 | **35,859** | - |
| Murabaha and other Islamic financing | 16 | **75,256** | 85,032 |
| Ijara financing | 17 | **45,730** | 71,719 |
| Direct write-off | | **419** | 79 |
| Other assets | 22 | **28,264** | 29,264 |
| | | **185,528** | 186,094 |

The above provision for impairment includes AED 28,264 thousand (31 March 2012: AED 29,264 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

## 11 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

| | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|
| Saving accounts | **24,503** | 32,115 |
| Investment accounts | **73,933** | 115,283 |
| Sukuk holders and Tier 2 wakala capital | **70,233** | 68,250 |
| | **168,669** | 215,648 |

## 12 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the profit for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the profit for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period, adjusted for the effects of any financial instruments with dilutive effects.

| | ***Three months ended 31 March 2013*** | *Three months ended 31 March 2012* |
|---|---|---|
| Profit for the period attributable to equity holders (AED '000) | **339,217** | 307,156 |
| Weighted average number of ordinary shares in issue (000's) | **2,364,706** | 2,364,706 |
| Basic and diluted earnings per share (AED) | **0.143** | 0.130 |

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised. Profit on Tier 1 sukuk is reflected in the EPS computation on the payment of such profit.

## 13 CASH AND BALANCES WITH CENTRAL BANKS

| | **31 March 2013 AED '000** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Cash on hand | **1,179,651** | 1,247,654 |
| Balances with central banks: | | |
| - Current accounts | **654,710** | 85,384 |
| - Statutory reserve | **5,226,445** | 5,044,983 |
| - Islamic certificate of deposits | **4,913,601** | 4,908,882 |
| | **11,974,407** | 11,286,903 |

The Bank is required to maintain statutory reserve with the Central Bank of the UAE and Iraq in AED and US Dollar on demand, time and other deposits. The statutory reserves are not available for use in the Bank's day-to-day operations and cannot be withdrawn without the approval of the Central Bank. Cash on hand and current accounts are not profit-bearing. Islamic certificate of deposits are profit bearing, which is based on entering into international commodities Murabaha transaction in which Central Bank of the UAE is the buyer and the Bank is the seller.

The distribution of the cash and balances with central banks by geographic region was as follows:

| | **31 March 2013 AED '000** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| UAE | **11,853,361** | 11,197,026 |
| Rest of the Middle East | **50,382** | 34,732 |
| Europe | **1,052** | 1,191 |
| Others | **69,612** | 53,954 |
| | **11,974,407** | 11,286,903 |

## 14 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

| | **31 March 2013 AED '000** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Current accounts | **146,016** | 187,139 |
| Wakala deposits | **4,479,925** | 3,934,341 |
| | **4,625,941** | 4,121,480 |

In accordance with Shari'a principles, deposits are invested only with Islamic financial institutions. The Bank does not earn profits on current accounts with banks and financial institutions.

## 14 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS continued

The distribution of balances and wakala deposits with Islamic banks and other financial institutions by geographic region was as follows:

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| UAE | **2,913,990** | 2,095,095 |
| Rest of the Middle East | **320,587** | 382,930 |
| Europe | **115,615** | 97,353 |
| Others | **1,275,749** | 1,546,102 |
| | **4,625,941** | 4,121,480 |

## 15 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Murabaha | **7,235,468** | 9,668,009 |
| Mudaraba | **193,207** | 216,739 |
| | **7,428,675** | 9,884,748 |
| Less: provision for impairment | **(165,670)** | (129,811) |
| | **7,263,005** | 9,754,937 |

In accordance with Shari'a principles, mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

The movement in the provision for impairment during the period was as follows:

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| At the beginning of the period | **129,811** | 129,811 |
| Charge for the period (note 10) | **35,859** | - |
| At the end of the period | **165,670** | 129,811 |

## 15 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS continued

The distribution of gross murabaha and mudaraba with financial institutions by geographic region was as follows:

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| UAE | **7,092,638** | 9,232,098 |
| Rest of the Middle East | **227,580** | 228,537 |
| Europe | **-** | 283,595 |
| Others | **108,457** | 140,518 |
| | **7,428,675** | 9,884,748 |

## 16 MURABAHA AND OTHER ISLAMIC FINANCING

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Vehicle murabaha | **6,156,820** | 6,478,901 |
| Goods murabaha | **4,667,673** | 3,601,090 |
| Share murabaha | **10,843,194** | 10,843,738 |
| Commodities murabaha – Al Khair | **4,123,478** | 3,744,646 |
| Other murabaha | **2,238,121** | 2,762,873 |
| Total murabaha | **28,029,286** | 27,431,248 |
| Mudaraba | **1,978,056** | 1,950,574 |
| Islamic covered cards (murabaha) | **5,138,191** | 4,826,941 |
| Istisna'a | **161,517** | 153,833 |
| Other financing receivables | **114,856** | 107,332 |
| Total murabaha and other Islamic financing | **35,421,906** | 34,469,928 |
| Less: deferred income on murabaha | **(8,849,080)** | (8,521,691) |
| | **26,572,826** | 25,948,237 |
| Less: provision for impairment | **(2,031,828)** | (1,996,460) |
| | **24,540,998** | 23,951,777 |

The movement in the provision for impairment during the period was as follows:

| | ***31 March 2013*** | | | *Audited 31 December 2012* | | |
|---|---|---|---|---|---|---|
| | ***Individual impairment AED '000*** | ***Collective impairment AED '000*** | ***Total AED '000*** | *Individual impairment AED '000* | *Collective impairment AED '000* | *Total AED '000* |
| At the beginning of the period | **1,588,375** | **408,085** | **1,996,460** | 1,829,876 | 387,263 | 2,217,139 |
| Charge for the period (note 10) | **68,366** | **6,890** | **75,256** | 217,662 | 20,822 | 238,484 |
| Written off during the period | **(39,888)** | **-** | **(39,888)** | (459,163) | - | (459,163) |
| At the end of the period | **1,616,853** | **414,975** | **2,031,828** | 1,588,375 | 408,085 | 1,996,460 |

**16 MURABAHA AND OTHER ISLAMIC FINANCING** continued

The distribution of gross murabaha and other Islamic financing by industry sector and geographic region was as follows:

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| ***Industry sector:*** | | |
| Government | **70,214** | 122,353 |
| Public sector | **698,285** | 209,341 |
| Corporate | **5,062,293** | 5,245,759 |
| Financial institutions | **541,263** | 541,005 |
| Individuals | **19,320,491** | 19,034,284 |
| Small and medium enterprises | **880,280** | 795,495 |
| | **26,572,826** | 25,948,237 |
| ***Geographic region:*** | | |
| UAE | **25,175,581** | 24,618,806 |
| Rest of the Middle East | **930,694** | 908,846 |
| Europe | **354,442** | 353,477 |
| Others | **112,109** | 67,108 |
| | **26,572,826** | 25,948,237 |

**17 IJARA FINANCING**

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation include a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| The aggregate future lease receivables are as follows: | | |
| Due within one year | **7,208,994** | 7,018,706 |
| Due in the second to fifth year | **16,185,068** | 16,516,618 |
| Due after five years | **14,669,745** | 11,969,991 |
| Total ijara financing | **38,063,807** | 35,505,315 |
| Less: deferred income | **(7,426,002)** | (7,159,108) |
| Net present value of minimum lease payments receivable | **30,637,805** | 28,346,207 |
| Less: provision for impairment | **(1,147,045)** | (1,101,269) |
| | **29,490,760** | 27,244,938 |

**17 IJARA FINANCING** continued

The movement in the provision for impairment during the period was as follows:

| | ***31 March 2013*** | | | *Audited 31 December 2012* | | |
|---|---|---|---|---|---|---|
| | ***Individual impairment AED '000*** | ***Collective impairment AED '000*** | ***Total AED '000*** | *Individual impairment AED '000* | *Collective impairment AED '000* | *Total AED '000* |
| At the beginning of the period | **693,655** | **407,614** | **1,101,269** | 417,485 | 375,582 | 793,067 |
| Charge for the period (note 10) | **15,583** | **30,147** | **45,730** | 333,790 | 32,032 | 365,822 |
| Written back (off) during the period | **46** | **-** | **46** | (57,620) | - | (57,620) |
| At the end of the period | **709,284** | **437,761** | **1,147,045** | 693,655 | 407,614 | 1,101,269 |

The distribution of gross ijara financing by industry sector and geographic region was as follows:

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| ***Industry sector:*** | | |
| Government | **644,795** | 88,587 |
| Public sector | **2,310,851** | 2,394,866 |
| Corporate | **13,668,174** | 11,840,442 |
| Financial institutions | **331,462** | 351,844 |
| Individuals | **13,184,336** | 13,220,219 |
| Small and medium enterprises | **498,187** | 450,249 |
| | **30,637,805** | 28,346,207 |
| ***Geographic region:*** | | |
| UAE | **29,763,099** | 27,842,569 |
| Rest of the Middle East | **409,192** | 10,444 |
| Others | **465,514** | 493,194 |
| | **30,637,805** | 28,346,207 |

## 18 INVESTMENTS

| | **31 March 2013 AED '000** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| ***Investments carried at fair value through profit or loss*** | | |
| Sukuk | **1,204,683** | 1,115,689 |
| ***Investments carried at fair value through other comprehensive income*** | | |
| Quoted investments | | |
| Equities | **18,345** | 22,955 |
| Unquoted investments | | |
| Funds | **87,390** | 91,797 |
| Private equities | **234,540** | 236,380 |
| | **321,930** | 328,177 |
| | **340,275** | 351,132 |
| ***Investments carried at amortised cost*** | | |
| Sukuk | **4,017,292** | 2,788,327 |
| Total investments | **5,562,250** | 4,255,148 |

The movement in the provision for impairment during the period was as follows:

| | **31 March 2013 AED '000** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| At the beginning of the period | **81,308** | 78,041 |
| Charge for the period | **-** | 3,267 |
| At the end of the period | **81,308** | 81,308 |

The distribution of gross investments by geographic region was as follows:

| | **31 March 2013** | 31 December 2012 |
|---|---|---|
| UAE | **4,139,054** | 2,605,827 |
| Rest of the Middle East | **1,195,082** | 1,351,616 |
| Europe | **177** | 180 |
| Others | **309,245** | 378,833 |
| | **5,643,558** | 4,336,456 |

## 19 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

| | 31 March 2013 AED '000 | Audited 31 December 2012 AED '000 |
|---|---|---|
| Cost of investment | **831,063** | 831,063 |
| Share of results | **18,842** | 17,239 |
| Dividends received | **(4,497)** | (4,497) |
| Foreign currency translation | **(118,104)** | (73,496) |
| | **727,304** | 770,309 |
| Less: provision for impairment | **(4,284)** | (4,284) |
| | **723,020** | 766,025 |

The movement in the provision for impairment during the period was as follows:

| | 31 March 2013 AED '000 | Audited 31 December 2012 AED '000 |
|---|---|---|
| At the beginning of the period | **4,284** | 32,783 |
| Written off during the period | **-** | (28,499) |
| At the end of the period | **4,284** | 4,284 |

Details of the Bank's investment in associates and joint venture at 31 March is as follows:

| | *Place of incorporation* | *Proportion of ownership interest and voting power* 2013 % | *Proportion of ownership interest and voting power* 2012 % | *Principal activity* |
|---|---|---|---|---|
| ***Associates*** | | | | |
| Abu Dhabi National Takaful PJSC | UAE | **40** | 40 | Islamic insurance |
| BBI Leasing and Real Estate D.O.O | Bosnia | **-** | 32 | Islamic leasing and real estate |
| Bosna Bank International D.D | Bosnia | **27** | 27 | Islamic banking |
| ***Joint venture*** | | | | |
| National Bank for Development | Egypt | **49** | 49 | Banking (under conversion to Islamic bank) |

The distribution of the gross investment in associates and joint venture by geographic region was as follows:

| | 31 March 2013 AED '000 | Audited 31 December 2012 AED '000 |
|---|---|---|
| UAE | **135,243** | 133,640 |
| Europe | **32,999** | 34,111 |
| Others | **559,062** | 602,558 |
| | **727,304** | 770,309 |

## 20 INVESTMENT PROPERTIES

The movement in investment properties balance during the period was as follows:

| | **31 March 2013 AED '000** | Audited 31 December 2012 AED '000 |
|---|---|---|
| Cost: | | |
| Balance at the beginning of the period | **338,995** | 177,629 |
| Transfer from development properties (note 21) | **-** | 131,103 |
| Transfer from other assets | **-** | 37,300 |
| Disposals | **-** | (7,037) |
| Gross balance at the end of the period | **338,995** | 338,995 |
| Less: provision for impairment | **(16,183)** | (16,183) |
| Net balance at the end of the period | **322,812** | 322,812 |
| Accumulated depreciation: | | |
| Balance at the beginning of the period | **16,638** | 7,628 |
| Charge for the period | **2,547** | 9,278 |
| Relating to transfer to property and equipment | **-** | (268) |
| Balance at the end of the period | **19,185** | 16,638 |
| Net book value at the end of the period | **303,627** | 306,174 |

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 2,793 thousand (31 March 2012: AED 2,794 thousand) for the three months period ended 31 March 2013.

The movement in provision for impairment during the period was as follows:

| | **31 March 2013 AED '000** | Audited 31 December 2012 AED '000 |
|---|---|---|
| Balance at the beginning of the period | **16,183** | 14,761 |
| Charge for the period | **-** | 1,422 |
| Balance at the end of the period | **16,183** | 16,183 |

The distribution of investment properties by geographic region was as follows:

| | | |
|---|---|---|
| UAE | **311,562** | 314,109 |
| Rest of the Middle East | **8,248** | 8,248 |
| | **319,810** | 322,357 |

## 21 DEVELOPMENT PROPERTIES

The movement in development properties during the period was as follows:

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Balance at the beginning of the period | **837,381** | 966,747 |
| Additions | **-** | 4,246 |
| Transfers to investment properties (note 20) | **-** | (131,103) |
| Disposals | **-** | (2,509) |
| Balance at the end of the period | **837,381** | 837,381 |

Development properties include land with a carrying value of AED 800,000 thousand (31 December 2012: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

## 22 OTHER ASSETS

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Advances against purchase of properties | **1,374,985** | 1,267,062 |
| Assets acquired in satisfaction of claims | **106,392** | 106,392 |
| Trade receivables | **243,853** | 216,439 |
| Prepaid expenses | **398,126** | 311,111 |
| Accrued profit | **60,629** | 43,100 |
| Advance to contractors | **2,652** | 700 |
| Advance for investments | **183,625** | 183,625 |
| Others | **143,410** | 196,491 |
| | **2,513,672** | 2,324,920 |
| Less: provision for impairment | **(435,241)** | (406,977) |
| | **2,078,431** | 1,917,943 |

## 22 OTHER ASSETS continued

The movement in the provision for impairment during the period was as follows:

| | *Advances against purchase of properties AED '000* | *Trade receivables AED '000* | *Advance for investments AED '000* | *Total AED '000* |
|---|---|---|---|---|
| At 1 January 2013 - audited | **353,268** | **29,826** | **23,883** | **406,977** |
| Charge for the period (note 10) | **28,264** | **-** | **-** | **28,264** |
| At 31 March 2013 - unaudited | **381,532** | **29,826** | **23,883** | **435,241** |
| At 1 January 2012 - audited | 192,575 | 30,100 | 20,828 | 243,503 |
| Charge for the year | 185,536 | - | 3,055 | 188,591 |
| Written off during the year | (24,843) | (274) | - | (25,117) |
| At 31 December 2012 - audited | 353,268 | 29,826 | 23,883 | 406,977 |

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as "Assets acquired in satisfaction of claims". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

## 23 DUE TO FINANCIAL INSTITUTIONS

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Current accounts | **352,488** | 286,965 |
| Investment deposits | **3,057,480** | 2,813,360 |
| Murabaha payable | **28,034** | - |
| | **3,438,002** | 3,100,325 |
| Current account – Central Bank of UAE | **-** | 33,568 |
| | **3,438,002** | 3,133,893 |

## 24 DEPOSITORS' ACCOUNTS

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Current accounts | **18,288,279** | 16,963,281 |
| Saving accounts | **16,223,374** | 14,947,937 |
| Investment accounts | **28,664,164** | 29,191,335 |
| Profit equalisation reserve | **236,380** | 223,594 |
| | **63,412,197** | 61,326,147 |

**24 DEPOSITORS' ACCOUNTS** continued

The movement in the profit equalisation reserve during the period was as follows:

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| At the beginning of the period | **223,594** | 140,599 |
| Share of profit for the period | **12,786** | 82,995 |
| At the end of the period | **236,380** | 223,594 |

The distribution of gross depositors' accounts by industry sector was as follows:

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Government | **8,475,481** | 7,071,394 |
| Public sector | **9,789,834** | 9,313,353 |
| Corporates | **3,679,950** | 5,289,996 |
| Financial institutions | **814,780** | 1,399,588 |
| Individuals | **32,907,453** | 30,925,380 |
| Small and medium enterprises | **7,744,699** | 7,326,436 |
| | **63,412,197** | 61,326,147 |

The Bank invests all of its investment accounts including saving accounts, adjusted for UAE and Iraq Central Bank reserve requirements and the Group's liquidity requirements.

With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

**25 OTHER LIABILITIES**

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Accounts payable | **391,806** | 283,677 |
| Payable for purchase of properties | **24,434** | 24,172 |
| Accrued profit for distribution to depositors and sukuk holders | **204,214** | 160,335 |
| Bankers' cheques | **277,872** | 216,559 |
| Provision for staff benefits and other expenses | **254,316** | 245,852 |
| Retentions payable | **164,374** | 172,819 |
| Advances from customers | **98,033** | 57,503 |
| Accrued expenses | **127,157** | 125,280 |
| Dividends payable (note 37) | **600,616** | - |
| Unclaimed dividends | **104,785** | 105,532 |
| Deferred income | **95,932** | 86,248 |
| Charity account | **5,448** | 4,853 |
| Donation account | **4,468** | 689 |
| Negative fair value on Shari'a compliant alternatives of derivative financial instruments | **21,434** | 28,542 |
| Others | **347,316** | 362,262 |
| | **2,722,205** | 1,874,323 |

## 26 TIER 2 WAKALA CAPITAL

In December 2008, the UAE Federal government ("the Government") placed deposits with the Bank for a period of 3 - 5 years. Subsequent to the deposit placements, the Government offered, subject to certain terms and conditions and in accordance with the Central Bank's capital adequacy requirements, to convert the deposits, into capital qualifying as Tier 2 capital. Pursuant to the Extraordinary General Meeting held on 22 March 2009, the shareholders approved, subject to the terms of an instrument to be entered into with the Government, the conversion of these deposits into a Tier 2 capital. On 31 December 2009, a Shari'a compliant wakala agreement was signed by the Bank. In accordance with the terms of that agreement the deposits were converted into Tier 2 qualifying wakala capital.

The wakala capital is an unsecured subordinated obligation of the Bank which has been provided to the Bank for a term of 7 years. However, the Bank may, subject to certain conditions, return the wakala capital to the Government prior to the expiry of the 7 year term. The Tier 2 qualifying wakala capital bears an expected profit rate ranging, over the term that it has been provided, from 4% - 5.25%. The profit rate is payable quarterly in arrears. In limited circumstances and subject to certain conditions, the Government has the ability to convert all or part of the wakala capital into ordinary shares of the Bank at the prevailing market price.

## 27 SUKUK FINANCING INSTRUMENTS

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Second issue | **2,726,464** | 2,634,652 |
| Third issue | **1,836,250** | 1,836,250 |
| | **4,562,714** | 4,470,902 |

**Second issue - USD 750 million**
In November 2010, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,754,375 thousand (USD 750 million) as the second issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2015. The sukuk deserved profit is distributed in accordance with fixed profit rate. As of 31 March 2013, sukuk with a face value of AED 27,911 thousand (USD 7.6 million) were repurchased by the Bank (31 December 2012: of AED 119,723 thousand (USD 32.6 million)).

**Third issue - USD 500 million**
In November 2011, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 1,836,250 thousand (USD 500 million) as the third issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2016. The sukuk deserved profit is distributed in accordance with fixed profit rate.

**Terms of arrangement**
The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a sukuk company, ADIB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of AED 4,562,714 thousand (USD 1,242 million) (31 December 2012: AED 4,470,902 thousand (USD 1,217 million)).

## 28 SHARE CAPITAL

| | 31 March 2013 AED '000 | Audited 31 December 2012 AED '000 |
|---|---|---|
| ***Authorised share capital:*** | | |
| 3,000,000 thousand (2012: 3,000,000 thousand) ordinary shares of AED 1 each (2012: AED 1 each) | **3,000,000** | 3,000,000 |
| ***Issued and fully paid share capital:*** | | |
| 2,364,706 thousand (2012: 2,364,706 thousand) ordinary shares of AED 1 each (2012: AED 1 each) | **2,364,706** | 2,364,706 |

## 29 OTHER RESERVES

| | *Cumulative changes in fair values AED '000* | *Land revaluation reserve AED '000* | *Foreign currency translation reserve AED '000* | *Hedging reserve AED '000* | *Total AED '000* |
|---|---|---|---|---|---|
| At 1 January 2013 - audited | **(128,179)** | **143,000** | **(73,350)** | **(27,521)** | **(86,050)** |
| Net loss on valuation of investments carried at FVTOCI | **(1,488)** | - | - | - | **(1,488)** |
| Exchange differences arising on translation of foreign operations | - | - | **(48,118)** | - | **(48,118)** |
| Gain on hedge of foreign operations | - | - | **4,622** | - | **4,622** |
| Fair value gain on cash flow hedge | - | - | - | **5,358** | **5,358** |
| At 31 March 2013 - unaudited | **(129,667)** | **143,000** | **(116,846)** | **(22,163)** | **(125,676)** |
| At 1 January 2012 – audited | (165,030) | 143,000 | 13,565 | (19,578) | (28,043) |
| Net gain on valuation of investments carried at FVTOCI | 3,052 | - | - | - | 3,052 |
| Exchange differences arising on translation of foreign operations | - | - | 2,803 | - | 2,803 |
| Loss on hedge of foreign operations | - | - | (2,057) | - | (2,057) |
| Fair value gain on cash flow hedge | - | - | - | 651 | 651 |
| At 31 March 2012 - unaudited | **(161,978)** | **143,000** | **14,311** | **(18,927)** | **(23,594)** |

## 30 TIER 1 SUKUK

| | *31 March 2013 AED '000* | *Audited 31 December 2012 AED '000* |
|---|---|---|
| Tier 1 sukuk | **3,629,165** | 3,629,165 |
| Tier 1 sukuk – Government of Abu Dhabi | **2,000,000** | 2,000,000 |
| | **5,629,165** | 5,629,165 |

**Tier 1 sukuk**
On 19 November 2012, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk (the "Sukuk") amounting to AED 3,672,500 thousand (USD 1 billion). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 21 October 2012. As of 31 March 2013, sukuk with a face value of AED 43,335 thousand (USD 11.8 million) were repurchased by the Bank (31 December 2012: 43,335 thousand (USD 11.8 million)). Issuance cost amounting to AED 37,281 thousand were incurred.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk is callable by the Bank after period ending on 16 October 2018 (the "First Call Date") or any profit payment date thereafter subject to certain conditions. The Sukuk bear an expected Mudaraba profit rate of 6.375% payable during the initial period of six years semi-annually in arrears. After the initial period, and for every 6$^{th}$ year thereafter, resets to a new expected Mudaraba profit rate based on the then 6 year LIBOR rate plus an expected margin of 5.393% Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

**Tier 1 sukuk – Government of Abu Dhabi**
On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk-Gov") to the Department of Finance of the Government of Abu Dhabi, with a principal amount of AED 2,000,000 thousand. Issuance of this Sukuk-Gov was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk-Gov is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk-Gov is callable by the Bank subject to certain conditions. The Sukuk-Gov bear an expected mudaraba profit rate of 6% payable during the initial period of five years semi-annually in arrears and, after the initial period, bear an expected variable mudaraba profit rate payable of 6 months EIBOR plus an expected margin of 2.3%. Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

## 31 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Bank's customers.

Commitments to extend Islamic credit facilities represent contractual commitments under Islamic financing contracts. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

The Bank has the following credit related contingencies, commitments and other capital commitments:

| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
|---|---|---|
| ***Contingent liabilities*** | | |
| Letters of credit | **2,168,120** | 1,906,850 |
| Letters of guarantee | **8,103,249** | 8,584,386 |
| Acceptances | **491,763** | 419,196 |
| | **10,763,132** | 10,910,432 |
| ***Commitments*** | | |
| Undrawn facilities commitments | **354,874** | 705,812 |
| Future capital expenditure | **195,030** | 256,159 |
| Investment and development properties | **1,292,025** | 1,399,948 |
| | **1,841,929** | 2,361,919 |
| | **12,605,061** | 13,272,351 |

## 32 CASH AND CASH EQUIVALENTS

| | ***31 March 2013 AED '000*** | *31March 2012 AED '000* |
|---|---|---|
| Cash and balances with central banks, short term | **8,718,272** | 7,172,248 |
| Balances and wakala deposits with Islamic banks and other financial institutions, short term | **4,602,146** | 2,867,751 |
| Murabaha and mudaraba with financial institutions, short term | **6,208,260** | 4,560,495 |
| Due to financial institutions, short term | **(3,401,590)** | (1,440,718) |
| | **16,127,088** | 13,159,776 |

## 33 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholders, key management and their related concerns. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. All financial assets are performing and free of any provision for impairment.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the period has ranged from 0% to 9% (2012: 0% to 9% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the period have ranged from 0% to 2.3% per annum (2012: 0% to 2.3% per annum).

Fees and commissions earned on transactions with related parties during the period were nil (2012: 1.5% per annum).

During the period, significant transactions with related parties included in the consolidated income statement were as follows:

| | *Major shareholder AED '000* | *Directors AED '000* | *Associates AED '000* | *Others AED '000* | *Total AED '000* |
|---|---|---|---|---|---|
| ***31 March 2013 - unaudited*** | | | | | |
| Income from murabaha, mudaraba and wakala with financial institutions | **-** | **-** | **264** | **-** | **264** |
| Income from murabaha, mudaraba, ijara and other Islamic financing from customers | **14,557** | **167** | **-** | **35,799** | **50,523** |
| Operating expenses | **-** | **135** | **-** | **-** | **135** |
| Distribution to depositors and sukuk holders | **19** | **7** | **46** | **71** | **143** |
| ***31 March 2012 - unaudited*** | | | | | |
| Income from murabaha, mudaraba and wakala with financial institutions | - | - | 783 | - | 783 |
| Income from murabaha, mudaraba, ijara and other Islamic financing from customers | 22,437 | 152 | - | 37,581 | 60,170 |
| Operating expenses | - | 96 | - | - | 96 |
| Distribution to depositors and sukuk holders | 19 | 11 | 72 | 10 | 112 |

**33 RELATED PARTY TRANSACTIONS** continued

The related party balances included in the interim consolidated statement of financial position were as follows:

| | *Major shareholder AED '000* | *Directors AED '000* | *Associates AED '000* | *Others AED '000* | *Total AED '000* |
|---|---|---|---|---|---|
| ***31 March 2013 - unaudited*** | | | | | |
| Balances and wakala deposits with Islamic banks and other financial institutions | **-** | **-** | **1,278,211** | **-** | **1,278,211** |
| Murabaha, mudaraba, ijara and other Islamic financing | **2,370,824** | **23,274** | **-** | **3,127,064** | **5,521,162** |
| Other assets | **-** | **-** | **1,111** | **183,625** | **184,736** |
| | **2,370,824** | **23,274** | **1,279,322** | **3,310,689** | **6,984,109** |
| Due to financial institutions | **-** | **-** | **5,052** | **-** | **5,052** |
| Depositors' accounts | **23,921** | **18,341** | **55,316** | **123,450** | **221,028** |
| Other liabilities | **4** | **45** | **19** | **90** | **158** |
| | **23,925** | **18,386** | **60,387** | **123,540** | **226,238** |
| Undrawn facilities commitments | **-** | **-** | **-** | **83** | **83** |
| ***31 December 2012 - audited*** | | | | | |
| Balances and wakala deposits with Islamic banks and other financial institutions | - | - | 1,476,250 | - | 1,476,250 |
| Murabaha, mudaraba, ijara and other Islamic financing | 2,356,267 | 10,870 | - | 3,140,901 | 5,508,038 |
| Other assets | - | - | 1,107 | 183,625 | 184,732 |
| | 2,356,267 | 10,870 | 1,477,357 | 3,324,526 | 7,169,020 |
| Due to financial institutions | - | - | 4,155 | - | 4,155 |
| Depositors' accounts | 27,907 | 8,817 | 28,382 | 91,633 | 156,739 |
| Other liabilities | 4 | 2 | 200 | 32 | 238 |
| | 27,911 | 8,819 | 32,737 | 91,665 | 161,132 |
| Undrawn facilities commitments | - | - | - | 83 | 83 |

The Bank and its major shareholder jointly own a controlling stake in National Bank for Development, Egypt ("NBD") and have a formal joint control arrangement for their investment in NBD (note 19).

**Compensation of key management personnel**
The compensation of key management personnel during the period was as follows:

| | ***Three months ended 31 March 2013 AED '000*** | *Three months ended 31 March 2012 AED '000* |
|---|---|---|
| Salaries and other benefits | **7,705** | 7,396 |
| Employees' end of service benefits | **721** | 663 |
| | **8,426** | 8,059 |

## 33 RELATED PARTY TRANSACTIONS continued

**Compensation of key management personnel** continued

In accordance with the Ministry of Economy and Commerce interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration is recognised in the interim consolidated statement of comprehensive income.

Board of Directors remuneration for the year ended 31 December 2012 amounting to AED 4,200 thousand has been approved by the shareholders at the Annual General Assembly held on 28 March 2013. During 2012, AED 4,200 thousand was paid to Board of Directors pertaining to the year ended 31 December 2011 after the approval by the shareholders in the Annual General Assembly held on 4 April 2012.

## 34 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision makers of the Bank in order to allocate resources to the segment and to assess its performance. Information reported to the chief operating decision makers for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to the different markets.

Retail banking - Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahat, Ijara, Islamic covered card and funds transfer facilities and trade finance facilities.

Wholesale banking – Principally handling financing and other credit facilities and deposits and current accounts for corporate and institutional customers.

Private banking - Principally handling financing and other credit facilities, deposits and current accounts for high net worth individual customers and community banking.

Capital markets – Principally handling money market brokerage, trading and treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

Real estate – Subsidiary of the Bank handling the acquisition, selling, development and leasing including both land and buildings, management and resale of properties and all associated activities.

Other operations - Other operations comprises mainly of Head Office, foreign branches and subsidiaries other than above categories including unallocated costs.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

## 34 SEGMENT INFORMATION continued

Business segments information for the period ended 31 March 2013 were as follows:

| | *Retail banking AED '000* | *Wholesale banking AED '000* | *Private banking AED '000* | *Capital markets AED '000* | *Real estate AED '000* | *Other operations AED '000* | *Total AED '000* |
|---|---|---|---|---|---|---|---|
| **Revenue and results** | | | | | | | |
| Segment revenues, net | **613,134** | **267,831** | **62,302** | **10,134** | **(9,143)** | **(25,238)** | **919,020** |
| Operating expenses excluding provision for impairment, net | **(263,305)** | **(50,789)** | **(22,402)** | **(14,296)** | **(17,640)** | **(24,981)** | **(393,413)** |
| Operating profit (margin) | **349,829** | **217,042** | **39,900** | **(4,162)** | **(26,783)** | **(50,219)** | **525,607** |
| Provision for impairment, net | **(56,967)** | **(94,473)** | **581** | **-** | **(28,264)** | **(6,405)** | **(185,528)** |
| **Profit (loss) for the period** | **292,862** | **122,569** | **40,481** | **(4,162)** | **(55,047)** | **(56,624)** | **340,079** |
| Non-controlling interest | **-** | **-** | **-** | **(176)** | **-** | **(686)** | **(862)** |
| Profit (loss) for the period attributable to equity holders of the Bank | **292,862** | **122,569** | **40,481** | **(4,338)** | **(55,047)** | **(57,310)** | **339,217** |
| **Assets** | | | | | | | |
| Segmental assets | **27,950,193** | **22,555,317** | **6,133,016** | **27,371,218** | **2,663,181** | **2,012,670** | **88,685,595** |
| **Liabilities** | | | | | | | |
| Segmental liabilities | **33,903,971** | **15,576,196** | **5,188,864** | **19,827,399** | **293,583** | **1,552,513** | **76,342,526** |

Business segments information for the period ended 31 March 2012 were as follows:

| | *Retail banking AED '000* | *Wholesale banking AED '000* | *Private banking AED '000* | *Capital markets AED '000* | *Real estate AED '000* | *Other operations AED '000* | *Total AED '000* |
|---|---|---|---|---|---|---|---|
| **Revenue and results** | | | | | | | |
| Segment revenues, net | 549,154 | 237,268 | 69,387 | 23,971 | (9,974) | 965 | 870,771 |
| Operating expenses excluding provision for impairment, net | (253,593) | (53,359) | (22,928) | (14,850) | (17,429) | (15,221) | (377,380) |
| Operating profit (margin) | 295,561 | 183,909 | 46,459 | 9,121 | (27,403) | (14,256) | 493,391 |
| Provision for impairment, net | (46,235) | (59,348) | (51,247) | - | (29,264) | - | (186,094) |
| **Profit (loss) for the period** | 249,326 | 124,561 | (4,788) | 9,121 | (56,667) | (14,256) | 307,297 |
| Non-controlling interest | - | - | - | (141) | - | - | (141) |
| Profit (loss) for the period attributable to equity holders of the Bank | 249,326 | 124,561 | (4,788) | 8,980 | (56,667) | (14,256) | 307,156 |
| **Assets** | | | | | | | |
| Segmental assets | 25,638,503 | 19,799,516 | 6,129,971 | 21,013,482 | 2,686,755 | 1,244,456 | 76,512,683 |
| **Liabilities** | | | | | | | |
| Segmental liabilities | 27,193,123 | 16,035,684 | 7,048,367 | 16,677,457 | 258,769 | 368,479 | 67,581,879 |

**34 SEGMENT INFORMATION** continued

**Geographical information**

The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq, Qatar and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

## 35 FINANCIAL RISK MANAGEMENT

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The table shows the maximum exposure to credit risk / price risk for murabaha, mudaraba, ijara, other Islamic financing and investments. Details of credit risk arising from contingencies and commitments are disclosed in note 31 to the interim condensed consolidated financial statements.

| | ***Balances and wakala deposits with Islamic banks and other financial institutions*** | | ***Murabaha and mudaraba with financial institutions*** | | ***Murabaha and other Islamic financing*** | | ***Ijara financing*** | | ***Investments*** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *Audited* | | *Audited* | | *Audited* | | *Audited* | | *Audited* |
| | ***31 March 2013 AED '000*** | *31 December 2012 AED '000* | ***31 March 2013 AED '000*** | *31 December 2012 AED '000* | ***31 March 2013 AED '000*** | *31 December 2012 AED '000* | ***31 March 2013 AED '000*** | *31 December 2012 AED '000* | ***31 March 2013 AED '000*** | *31 December 2012 AED '000* |
| **Individually impaired** | | | | | | | | | | |
| Substandard | - | - | - | - | **367,412** | 501,753 | **865,470** | 1,491,240 | **12,802** | 12,802 |
| Doubtful | - | - | - | - | **1,025,323** | 912,231 | **1,065,209** | 465,076 | **91,813** | 91,813 |
| Loss | - | - | **168,697** | 129,811 | **856,133** | 860,148 | **204,272** | 222,567 | - | - |
| Gross amount | - | - | **168,697** | 129,811 | **2,248,868** | 2,274,132 | **2,134,951** | 2,178,883 | **104,615** | 104,615 |
| Provision for individual impairment | - | - | **(165,670)** | (129,811) | **(1,616,853)** | (1,588,375) | **(709,284)** | (693,655) | **(81,308)** | (81,308) |
| | - | - | **3,027** | - | **632,015** | 685,757 | **1,425,667** | 1,485,228 | **23,307** | 23,307 |
| **Past due but not impaired** | | | | | | | | | | |
| Less than 90 days | - | - | - | - | **68,141** | 97,249 | **187,760** | 144,941 | - | - |
| More than 90 days | - | - | - | - | **154,306** | 148,033 | **973,820** | 1,063,661 | - | - |
| | - | - | - | - | **222,447** | 245,282 | **1,161,580** | 1,208,602 | - | - |
| **Neither past due nor impaired** | **4,625,941** | 4,121,480 | **7,259,978** | 9,754,937 | **24,101,511** | 23,428,823 | **27,341,274** | 24,958,722 | **5,538,943** | 4,231,841 |
| **Collective allowance for impairment** | - | - | - | - | **(414,975)** | (408,085) | **(437,761)** | (407,614) | - | - |
| **Carrying amount** | **4,625,941** | 4,121,480 | **7,263,005** | 9,754,937 | **24,540,998** | 23,951,777 | **29,490,760** | 27,244,938 | **5,562,250** | 4,255,148 |

## 36 CAPITAL ADEQUACY RATIO

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the period and year ended 31 March 2013 and 31 December 2012 respectively. During those two periods, the Group has complied with all of the externally imposed capital requirements to which it is subject to:

| | Basel II | |
|---|---|---|
| | ***31 March 2013 AED '000*** | *Audited 31 December 2012 AED '000* |
| ***Tier 1 capital*** | | |
| Share capital | **2,364,706** | 2,364,706 |
| Legal reserve | **1,756,679** | 1,756,679 |
| General reserve | **739,030** | 739,030 |
| Credit risk reserve | **400,000** | 400,000 |
| Retained earnings | **1,524,528** | 1,189,511 |
| Proposed dividends | **-** | 600,616 |
| Proposed dividends to charity | **-** | 4,450 |
| Foreign currency translation reserve | **(116,846)** | (73,350) |
| Tier 1 sukuk | **5,629,165** | 5,629,165 |
| Non-controlling interest | **54,637** | 53,775 |
| | **12,351,899** | 12,664,582 |
| Deductions for Tier 1 capital | **(361,510)** | (383,013) |
| **Total Tier 1** | **11,990,389** | 12,281,569 |
| ***Tier 2 capital*** | | |
| Tier 2 wakala capital | **1,765,926** | 1,765,926 |
| Cumulative changes in fair value | **(151,830)** | (155,700) |
| Collective impairment provision for financing assets | **811,388** | 764,061 |
| | **2,425,484** | 2,374,287 |
| Deductions for Tier 2 capital | **(361,510)** | (383,013) |
| **Total Tier 2** | **2,063,974** | 1,991,274 |
| **Total capital base** | **14,054,363** | 14,272,843 |
| ***Risk weighted assets*** | | |
| Credit risk | **64,911,071** | 61,124,859 |
| Market risk | **1,719,090** | 1,739,470 |
| Operational risk | **4,193,936** | 3,758,370 |
| **Total risk weighted assets** | **70,824,097** | 66,622,699 |
| ***Capital ratios*** | | |
| Total regulatory capital expressed as a percentage of total risk weighted assets | **19.84%** | 21.42% |
| Tier 1 capital expressed as a percentage of total risk weighted assets | **16.93%** | 18.43% |

The Basel II capital adequacy ratio was above the minimum requirement of 12% for 31 March 2013 (31 December 2012 – 12%) as stipulated by the Central Bank of the United Arab Emirates.

**37 DIVIDENDS**

Cash dividend of 25.40% of the paid up capital relating to year ended 31 December 2012 amounting to AED 600,616 thousand was approved by the shareholders in the Annual General Assembly held on 28 March 2013. The dividends shall be paid within 30 days of the Annual General Assembly to the shareholders.

Cash dividend of 24.42% of the paid up capital relating to year ended 31 December 2011 amounting to AED 577,546 thousand was paid to the shareholders after the approval by the shareholders in the Annual General Assembly held on 4 April 2012.

**38 SEASONALITY OF RESULTS**

The nature of Group's business is such that the income and expenditure are incurred in a manner, which is not impacted by any forms of seasonality. These interim condensed consolidated financial statements were prepared based upon accrual concept, which requires income and expenses to be recorded as earned or incurred and not as received or paid throughout the period.

**39 SUBSEQUENT EVENT**

On 4 April 2013, after obtaining the necessary regulatory and government approvals, the Bank repaid the UAE Federal government Tier 2 wakala capital (note 26) amounting to AED 2,207,408 thousand in full before its contractual maturity on 31 December 2016.