

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

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Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2011

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS

Year ended 31 December 2011

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic PJSC (“the Bank”) and its subsidiaries (collectively known as the “the Group”) for the year ended 31 December 2011.

Incorporation and registered office

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.

Principal activity

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.

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), general principles of the Shari’a as determined by the Group’s Fatwa and Shari’a Supervisory Board and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended).

Financial commentary

The Group net profit reached a record AED 1,155.1 million for 2011 (2010: AED 1,023.6 million) for 2011 up 12.8%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors and sukuk holders) for 2011 was AED 3,425.8 million (2010: AED 3,074.0 million) increased by 11.4%.
- Group operating profit (“margin”) for 2011 increased by 11.5% to reach at AED 1,976.2 million (2010: AED 1,772.8 million).
- Total credit provisions and impairments for 2011 were AED 821.1 million (2010: AED 749.2 million).
- Group net profit for 2011 reached a record AED 1,155.1 million (2010: AED 1,023.6 million) up 12.8%.
- Group earnings per share increased to AED 0.438 compared to AED 0.382 in 2010.
- Total assets as of 31 December 2011 were AED 74.3 billion (2010: AED 75.3 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2011 were AED 48.8 billion (2010: AED 48.0 billion).
- Customer deposits as of 31 December 2011 were AED 55.2 billion (2010: AED 56.5 billion).

Dividends and proposed appropriations

The Board of Directors have recommended a cash dividend of 24.42% to be paid out of 2011 profit.

The Board of Directors also proposed the following appropriations from retained earnings:

	<i>AED '000</i>
• Transfer to legal reserves	(995)
• Transfer to general reserves	(142,739)
• Proposed dividends to charity for the year ended 31 December 2011	(1,028)
• Proposed cash dividend to shareholders for the year ended 31 December 2011	(577,546)
• Profit paid on Tier 1 sukuk during the year	(120,000)
• Directors’ fees paid for the year ended 31 December 2010	(4,200)

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS

Year ended 31 December 2011


Board of Directors

The directors during the year were as follows:

- | | | |
|----|-------------------------------------|---------------|
| 1. | H.E. Jawaan Awaida Suhail Al Khaili | Chairman |
| 2. | Khaled Abdulla Neamat Khouri | Vice Chairman |
| 3. | Khamis Mohamed Buharoon | Board Member |
| 4. | Juma Khamis Mugheer Al Khaili | Board Member |
| 5. | Ragheed Najeeb Shanti | Board Member |
| 6. | Dr. Sami Ali Al Amri | Board Member |
| 7. | Abdulla Bin Aqeeda Al Muhairi | Board Member |

Auditors

Ernst & Young were appointed as external auditors of the Group for the year ended 31 December 2011. Ernst & Young are eligible for reappointment for 2012 and have expressed their willingness to continue in office.



On behalf of the Board of Directors
Khaled Abdulla Neamat Khouri
Vice Chairman
13 February 2012
Abu Dhabi

Abu Dhabi Islamic Bank PJSC
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ABU DHABI ISLAMIC BANK PJSC**

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Bank and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Bank; proper books of account have been kept by the Bank; and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Group or on its financial position.

A handwritten signature in blue ink, appearing to read 'Richard Mitchell', with a horizontal line underneath.

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

13 February 2012
Abu Dhabi

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	<i>Notes</i>	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		118,236	187,719
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	3,609,400	3,453,005
Investment income	6	86,056	75,699
Share of results of associates		17,339	14,798
Fees and commission income, net	7	429,339	343,325
Foreign exchange income		30,083	29,071
Income from investment properties	8	7,743	5,265
Income (loss) from development properties	9	4,178	(4,300)
Other income		<u>9,926</u>	<u>14,441</u>
		<u>4,312,300</u>	<u>4,119,023</u>
OPERATING EXPENSES			
Employees' costs	10	(895,735)	(792,815)
General and administrative expenses	11	(462,529)	(431,210)
Depreciation	22 & 25	(91,390)	(77,215)
Provision for impairment, net	12	<u>(821,070)</u>	<u>(749,212)</u>
		<u>(2,270,724)</u>	<u>(2,050,452)</u>
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		2,041,576	2,068,571
Distribution to depositors and sukuk holders	13	<u>(886,485)</u>	<u>(1,045,006)</u>
PROFIT FOR THE YEAR		<u>1,155,091</u>	<u>1,023,565</u>
Attributable to:			
Equity holders of the Bank		1,154,969	1,023,345
Non-controlling interest	36	<u>122</u>	<u>220</u>
		<u>1,155,091</u>	<u>1,023,565</u>
Basic and diluted earnings per share attributable to ordinary shares (AED)	14	<u>0.438</u>	<u>0.382</u>

The attached notes 1 to 46 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	<i>Notes</i>	2011 AED '000	2010 AED '000
PROFIT FOR THE YEAR		1,155,091	1,023,565
Other comprehensive (loss) income			
Net loss on valuation of investments carried at fair value through other comprehensive income	34	(86,616)	-
Net gain on valuation of available-for-sale investments	34	-	24,899
Impairment on available-for-sale investments	34	-	50,621
Surplus on revaluation of land	25	13,761	-
Directors' remuneration paid	41	(4,200)	(3,000)
Exchange differences arising on translation of foreign operations	34	(1,321)	(6,375)
Gain on hedge of foreign operations	34	1,321	-
Fair value loss on cash flow hedges	34	<u>(10,936)</u>	<u>(2,566)</u>
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		<u>(87,991)</u>	<u>63,579</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,067,100</u>	<u>1,087,144</u>
Attributable to:			
Equity holders of the Bank		1,066,978	1,086,924
Non-controlling interest		<u>122</u>	<u>220</u>
		<u>1,067,100</u>	<u>1,087,144</u>

The attached notes 1 to 46 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 AED '000	2010 AED '000
ASSETS			
Cash and balances with central banks	15	11,207,145	5,400,335
Balances and wakala deposits with Islamic banks and other financial institutions	16	2,515,371	2,906,382
Murabaha and mudaraba with financial institutions	17	5,216,501	12,823,542
Murabaha and other Islamic financing	18	23,365,559	22,682,521
Ijara financing	19	25,465,782	25,270,071
Investments	20	1,652,605	1,639,414
Investment in associates	21	851,503	837,195
Investment properties	22	155,240	191,654
Development properties	23	966,747	1,050,445
Other assets	24	1,964,650	1,870,072
Property and equipment	25	973,963	585,887
TOTAL ASSETS		<u>74,335,066</u>	<u>75,257,518</u>
LIABILITIES			
Due to financial institutions	26	1,931,426	891,390
Depositors' accounts	27	55,171,783	56,517,045
Other liabilities	28	1,862,757	2,091,500
Tier 2 wakala capital	29	2,207,408	2,207,408
Sukuk financing instruments	30	4,590,625	5,439,523
Total liabilities		<u>65,763,999</u>	<u>67,146,866</u>
EQUITY			
Share capital	31	2,364,706	2,364,706
Legal reserve	32	1,755,894	1,754,899
General reserve	32	585,921	443,182
Retained earnings		1,311,406	984,069
Proposed dividends	33	577,546	511,783
Proposed dividends to charity		1,028	6,816
Other reserves	34	(28,043)	42,122
Tier 1 sukuk	35	2,000,000	2,000,000
Equity attributable to the equity holders of the Bank		8,568,458	8,107,577
Non-controlling interest	36	2,609	3,075
Total equity		<u>8,571,067</u>	<u>8,110,652</u>
TOTAL LIABILITIES AND EQUITY		<u>74,335,066</u>	<u>75,257,518</u>
CONTINGENT LIABILITIES AND COMMITMENTS	37	<u>14,378,921</u>	<u>12,156,042</u>



Khaled Abdulla Neamat Khouri
Vice Chairman



Tirad M. Mahmoud
Chief Executive Officer

The attached notes 1 to 46 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

<i>Attributable to the equity holders of the Bank</i>												
	<i>Notes</i>	<i>Share capital AED '000</i>	<i>Legal reserve AED '000</i>	<i>General reserve AED '000</i>	<i>Retained earnings AED '000</i>	<i>Proposed dividends AED '000</i>	<i>Proposed dividends to charity AED '000</i>	<i>Other reserves AED '000</i>	<i>Tier 1 sukuk AED '000</i>	<i>Total AED '000</i>	<i>Non-controlling interest AED '000</i>	<i>Total equity AED '000</i>
Balance at 1 January 2010		1,970,588	1,754,475	321,297	724,632	394,118	1,028	(24,457)	2,000,000	7,141,681	2,855	7,144,536
Total comprehensive income		-	-	-	1,020,345	-	-	66,579	-	1,086,924	220	1,087,144
Profit paid on Tier 1 sukuk	35	-	-	-	(120,000)	-	-	-	-	(120,000)	-	(120,000)
Bonus shares issued		394,118	-	-	-	(394,118)	-	-	-	-	-	-
Dividends paid to charity		-	-	-	-	-	(1,028)	-	-	(1,028)	-	(1,028)
Transfer to reserves	32	-	424	121,885	(122,309)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(6,816)	-	6,816	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(511,783)	511,783	-	-	-	-	-	-
Balance at 1 January 2011 - audited		2,364,706	1,754,899	443,182	984,069	511,783	6,816	42,122	2,000,000	8,107,577	3,075	8,110,652
Transition adjustment on adoption of IFRS 9	3.2	-	-	-	38,248	-	-	(5,746)	-	32,502	-	32,502
Balance at 1 January 2011 - adjusted		2,364,706	1,754,899	443,182	1,022,317	511,783	6,816	36,376	2,000,000	8,140,079	3,075	8,143,154
Total comprehensive income		-	-	-	1,150,769	-	-	(83,791)	-	1,066,978	122	1,067,100
Loss on disposal of investment carried at fair value through other comprehensive income	34	-	-	-	(19,372)	-	-	19,372	-	-	-	-
Profit paid on Tier 1 sukuk	35	-	-	-	(120,000)	-	-	-	-	(120,000)	-	(120,000)
Dividends paid	33	-	-	-	-	(511,783)	-	-	-	(511,783)	(588)	(512,371)
Dividends paid to charity		-	-	-	-	-	(6,816)	-	-	(6,816)	-	(6,816)
Transfer to reserves	32	-	995	142,739	(143,734)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(1,028)	-	1,028	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(577,546)	577,546	-	-	-	-	-	-
Balance at 31 December 2011		<u>2,364,706</u>	<u>1,755,894</u>	<u>585,921</u>	<u>1,311,406</u>	<u>577,546</u>	<u>1,028</u>	<u>(28,043)</u>	<u>2,000,000</u>	<u>8,568,458</u>	<u>2,609</u>	<u>8,571,067</u>

The attached notes 1 to 46 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	<i>Notes</i>	2011 AED '000	2010 AED '000
OPERATING ACTIVITIES			
Profit for the year		1,155,091	1,023,565
Adjustments for:			
Depreciation on investment properties	22	5,793	4,022
Depreciation on property and equipment	25	85,597	73,193
Share of results of associates		(17,339)	(14,798)
Dividend income	6	(229)	(949)
Realised gain on sale of investments carried at fair value through profit and loss	6	(38,217)	-
Unrealised loss on investments carried at fair value through profit and loss	6	8,451	-
Realised gain on sale of available-for-sale investments	6	-	(25)
Unrealised gain on held for trading investments	6	-	(3,028)
Realised gain on sale of held for trading investments	6	-	(2,205)
Gain on disposal of property and equipment		(47)	(29)
Provision for impairment, net	12	821,070	749,212
Loss on sale of investment properties	8	73	-
Gain on sale of development properties	9	(4,283)	(33,603)
Operating profit before changes in operating assets and liabilities		2,015,960	1,795,355
Purchase of Islamic certificate of deposits		(3,659,611)	(900,089)
Decrease (increase) in balances and wakala deposits with Islamic banks and other financial institutions		69,982	(53,912)
Decrease in murabaha and mudaraba with financial institutions		2,274,889	2,702,632
Increase in murabaha and other Islamic financing		(1,015,276)	(2,330,190)
Increase in ijara financing		(609,678)	(5,705,764)
Purchase of investments carried at fair value through profit and loss		(2,018,601)	-
Proceeds from sale of investments carried at fair value through profit and loss		1,994,030	-
Purchase of held for trading investments		-	(2,125,426)
Proceeds from sale of held for trading investments		-	1,794,386
(Increase) decrease in other assets		(286,214)	307,609
Decrease in due to financial institutions		(1,243)	(15,518)
(Decrease) increase in depositors' accounts		(1,343,941)	8,297,383
Decrease in other liabilities		(285,557)	(204,404)
Cash (used in) from operations		(2,865,260)	3,562,062
Directors' remuneration paid	41	(4,200)	(3,000)
Net cash (used in) from operating activities		(2,869,460)	3,559,062
INVESTING ACTIVITIES			
Dividend received		229	949
Purchase of investments carried at fair value through other comprehensive income		(11,018)	-
Proceeds from sale of investments carried at fair value through other comprehensive income		37,092	-
Purchase of investments carried at amortised cost		(40,419)	-
Purchase of available-for-sale investments		-	(329,448)
Proceeds from sale of available-for-sale investments		-	61,255
Investment in associates		-	(90,640)
Dividends received from an associate	21	1,710	-
Proceeds from sale of investment properties	8	248	-
Additions to development properties	23	(16,447)	(75,800)
Proceeds from sale of development properties	9	10,989	77,485
Purchase of property and equipment	25	(235,451)	(280,255)
Proceeds from disposal of property and equipment		1,295	29
Net cash used in investing activities		(251,772)	(636,425)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	(120,000)	(120,000)
Repurchase of sukuk assets - first issue	30	(2,938,000)	-
Proceeds from the issuance of sukuk - third issue / second issue	30	1,836,250	2,754,375
Proceeds from (repurchase) of sukuk assets - second issue		252,852	(252,852)
Dividends paid		(473,309)	(2,542)
Dividends paid to charity		-	(1,028)
Net cash (used in) from financing activities		(1,442,207)	2,377,953
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(4,563,439)	5,300,590
Cash and cash equivalents at 1 January		<u>15,955,903</u>	<u>10,655,313</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	<u>11,392,464</u>	<u>15,955,903</u>
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		<u>3,444,502</u>	<u>3,454,570</u>
Profit paid to depositors and sukuk holders	13	<u>652,510</u>	<u>797,399</u>

The attached notes 1 to 46 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

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 69 branches in UAE and 1 branch in Iraq. The consolidated financial statements combine the activities of the Bank’s head office, its branches, subsidiaries and its associates.

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

The consolidated financial statements of the Group were authorised for issued by the Board of Directors on 13 February 2012.

2 DEFINITIONS

The following terms are used in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended).

3.1 (b) Accounting convention

The 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 (Previously: held for trading investments, available-for-sale investments), 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 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 consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	<i>Activity</i>	<i>Country of incorporation</i>	<i>Percentage of holding</i>	
			2011	2010
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%
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
Kawader Services Company LLC	Manpower supply	United Arab Emirates	100%	100%

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 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 Bank does not have any direct holding in ADIB Sukuk Company Ltd and is considered to be a subsidiary by virtue of control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BASIS OF PREPARATION continued

3.1 (c) Basis of consolidation continued

The financial statements of the subsidiaries are prepared for the same reporting year 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 consolidated income statement and within equity in the consolidated statement of financial position, separately from the Bank shareholders' equity.

3.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in UAE, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

During the year, the Group has early adopted the following accounting policy:

IFRS 9 Financial Instruments: Recognition and Measurement

The Group has early adopted IFRS 9 Financial Instruments (“IFRS 9”) issued in November 2009 and revised in October 2010 and related consequential amendments in advance of its effective date.

International Accounting Standards Board (IASB) issued exposure draft (ED) “Mandatory effective date of IFRS 9” that proposes to move the mandatory effective date to periods beginning on or after 1 January 2015 with early application continued to be permitted.

The Group has chosen 1 January 2011 as its date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities) in accordance with the transitional provisions of IFRS 9. The Group has not restated comparative information as permitted by the transitional provisions of IFRS 9 and has recognized impact of early adoption of IFRS 9 as at 1 January 2011, the opening retained earnings and other reserves as of that date.

IFRS 9 (phase 1) has been applied by the Group for the classification and measurement of financial assets and financial liabilities. IAS 39 is still being followed for impairment of financial assets and hedge accounting, as these will be covered through phase 2 and phase 3 of IFRS 9, respectively, which have not yet been completed by the IASB. As IASB completes these phases, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that would replace the requirements in IAS 39.

IFRS 9 requires all financial assets to be classified in their entirety on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are subsequently measured at either fair value or amortized cost on the basis of both:

- a. its business model for managing the financial assets; and
- b. the contractual cash flow characteristics of the financial asset.

Classification (as per IFRS 9)

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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

IFRS 9 Financial Instruments: Recognition and Measurement continued

Classification (as per IFRS 9) 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. Designation at FVTOCI is not permitted if the equity investment is classified as FVTPL.

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 the 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 (as per IFRS 9)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

Measurement (as per IFRS 9) 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 transactions
- option pricing models
- net asset values

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.

Management has reviewed and assessed all of the Group's existing financial assets and financial liabilities as at the date of initial application of IFRS 9. As a result:

- the Group's Balances and wakala deposits with Islamic banks and other financial institutions, Murabaha and mudaraba with financial institutions, customer financing and investment in sukuk excluding those held for trading, meeting the required criteria are measured at amortised cost; and
- the Group's equity investments not held for trading have been designated at FVTOCI.
- the Group's all financial liabilities including depositors' account are measured at amortised cost.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provisions of IFRS 9, where no restatement of comparative figures is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

IFRS 9 Financial Instruments: Recognition and Measurement continued

Measurement (as per IFRS 9) continued

The impact of the early adoption on the opening retained earnings and cumulative changes in fair value reserve classified in equity at the beginning of the current year (1 January 2011) is as follows:

	<i>Cumulative changes in fair value reserve AED'000</i>	<i>Retained earnings AED'000</i>
<u>Due to reclassification of financial assets:</u>		
Investments measured at FVTPL	-	6,521
Investments measured at FVTOCI– cumulative impairment losses recognised in the consolidated income statement in prior years	(31,727)	31,727
Investments carried at amortised cost	<u>25,981</u>	<u>-</u>
	<u>(5,746)</u>	<u>38,248</u>

Had the Bank not early adopted IFRS 9, the net profit for the year ended 31 December 2011 would have been lower by AED 43,851 thousand and other reserves in equity as at 31 December 2011 would have been higher by AED 4,132 thousand.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in consolidated statement of comprehensive income within foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement on the disposal of the foreign operations.

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards / amendments to standards which were issued up to 31 December 2011 and are not yet effective for the year ended 31 December 2011 have not been applied while preparing these consolidated financial statements:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 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 arrangements, associates and structured entities.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period when they become effective. Management is in the process of assessing the potential impact of the adoption of these standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, 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.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Impairment losses on financing assets and investments carried at amortised cost

The Group reviews its financing assets and investments carried at amortised cost on a regular basis to assess whether a provision for impairment should be recorded in the consolidated income statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of individually impaired provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on financing assets

In addition to specific provisions against individually impaired financing assets, the Bank also makes collective impairment provisions against portfolio of financing assets with common features which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Group's investments in securities are appropriately classified and measured.

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES *continued*

Investment and development properties

The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 22.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

Impairment of investments in associates

Management regularly reviews its investment in associates for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. If managements' review results in impairment, the difference between the estimated recoverable amount and the carrying value of investment in associate is recognised as an expense in the consolidated income statement.

Impairment review of investment properties, development properties and advances paid against purchase of properties

Investment properties, development properties and advances paid against purchase of properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

Useful life of property and equipment

The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors. During the year, management has revised the estimated useful life of buildings to 25 years from 20 years. The change in estimated useful life is a change in accounting estimate that has been applied prospectively from 1 January 2011.

The impact of this change in current and future periods is as follows:

	<i>(Amounts in AED thousands)</i>		
	<i>Year ending 31 December</i>		
	<i>2011</i>	<i>2012</i>	<i>2013 onwards</i>
Increase in net profit	<u>918</u>	<u>918</u>	<u>18,890</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

Murabaha

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time apportioned basis.

Ijara

Ijara income is recognised on a time apportioned basis over the lease term.

Musharaka

Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the Bank's consolidated income statement on their declaration by the Mudarib.

Sukuk

Income is accounted for on a time apportioned basis over the terms of the Sukuk.

Sale of properties

Revenue on sale of properties is recognised as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of units or apartments is deferred until completion of construction works and delivery to the buyer takes place.

Fee and commission income

Fee and commission income is recognised when the related services are performed.

Operating lease income

Operating lease income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

Gain on sale of investments (as per IFRS 9)

Gain or loss on disposal of FVTPL investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of FVTOCI investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Gain on sale of investments (as per IAS 39)

Gain or loss on disposal of trading investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs. Gain or loss on disposal of available-for-sale investments represents the difference between sale proceeds and their original cost less associated selling costs.

Dividends

Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of properties

Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the carrying amount at which it is recorded in the books.

Financial instruments as per IAS 39

(i) Classification (as per IAS 39)

The Group classifies its financial instruments in the following categories: Financial assets and financial liabilities at fair value through profit or loss, Murabaha, Ijara, Mudaraba, and certain other Islamic financing, available-for-sale investments and held to maturity investments. Management determines the classification of financial instruments at the time of initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets or financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial asset or financial liability is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term. The Group has designated financial assets and liabilities at fair value through profit or loss when either the assets and liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets or financial liabilities at amortised cost

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments as per IAS 39 continued

Financial assets or financial liabilities at amortised cost continued

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.

Held to maturity

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity and the Group's management has the positive intention and the ability to hold to maturity.

Available-for-sale

Financial assets that are not classified under any other category of financial assets are classified as available-for-sale.

(ii) *Recognition / De-recognition*

The Group initially recognises financial assets held for trading, financial assets at fair value through profit or loss, financial assets held to maturity and financial assets available-for-sale on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financing to customers are recognised on the day they are originated. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instruments.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, assets held for trading and assets available-for-sale that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

(iii) *Measurement (as per IAS 39)*

Financial assets and liabilities are measured initially at fair value plus, in case of a financial asset or financial liability or at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from a change in the fair value of assets at fair value through profit or loss account are recorded directly in the consolidated income statement.

Financial assets which are classified as available-for-sale are measured at fair value. Unrealised gains and losses on measurement to fair value of assets are recognised in the statement of other comprehensive income reported as a separate component of equity until the assets is sold or otherwise disposed of, or the assets is determined to be impaired, at which the cumulative gains of losses previously recognised through the statement of other comprehensive income are included in the consolidated income statement. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment allowance, if any.

All financial assets or liabilities at amortised cost, customer financing and held-to-maturity investments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments as per IAS 39 continued

(iv) Fair value measurement principles (as per IAS 39)

For investments quoted in active market, fair value is determined by reference to quoted market prices. The fair values of investments in funds or similar investment vehicles are based on the last net asset value published by the fund manager. 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 transactions
- option pricing models

The estimated fair value of deposits with no stated maturity, which includes non-profit bearing deposits, is the amount payable on demand.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a enforceable right legally and under Sharia'a framework to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(vi) Impairment of financial assets

Customer financing

The recoverable amount of customer financing is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective profit rate. Short-term balances are not discounted. Financing is presented net of impairment allowances. Specific allowances are made against the carrying amount of financing that are identified as being impaired, based on regular reviews of outstanding balances to reduce these financing to their recoverable amounts. Portfolio allowances are maintained to reduce the carrying amount of portfolios of similar financing to their estimated recoverable amounts at the statement of financial position date. Changes in the allowance account are recognized in the consolidated income statement. When a financing is known to be irrecoverable, and all the necessary legal procedures have been completed, the final loss is determined and the financing is written off.

If in a subsequent period the amount of an impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated income statement.

Where possible, the Bank seeks to restructure financing exposures rather than take possession of collateral and this may involve extending payment arrangements and agreement of new terms and conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur on schedule. The facilities continue to be subject to individual or collective impairment assessment, calculated using the facilities original effective profit rate.

Held to maturity investments (as per IAS 39)

Impairment losses on held to maturity investments carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original profit rate. Impairment losses are recognised in the consolidated income statement and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement.

Available-for-sale investments (as per IAS 39)

Impairment losses on available-for-sale investments are recognised by transferring the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in consolidated income statement out of equity to the consolidated income statement. Impairment losses recognised on equity instruments are not reversed through the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Investment in associates

The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is estimated between 25 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

Development properties

Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at the revalued amount in the consolidated financial statements.

Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

• Buildings	25 years
• Furniture and leasehold improvements	7 years
• Computer and office equipment	4 years
• Motor vehicles	4 years

The carrying values of properties and equipments are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated income statement as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognized.

Capital work-in-progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

When an asset is revalued, any increase in the carrying amount arising on revaluation is credited directly to equity under revaluation reserve, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Deposits

Customer deposits and due to banks and other financial institutions are carried at amortised cost.

Employees' pension and end of service benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are included within 'other liabilities' in the consolidated statement of financial position.

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Shari'a compliant alternatives of derivative financial instruments

The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

The Bank enters into cash flows hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Cash flow hedges

The effective portion of changes in the fair value of Shari'a compliant alternatives of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognized immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

Zakat

Zakat is computed in accordance with the Articles and Memorandum of Association of the Bank and is approved by the Fatwa and Shari'a Supervisory Board. As stated in the Articles and Memorandum of Association of the Bank, it is the responsibility of the shareholders to pay Zakat due on their investment.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 & Shari'a Standard number 35, and the Group's Fatwa and Shari'a Supervisory Board Resolutions.

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 39).

Profit distribution

Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Investment in subsidiaries is funded from the shareholders' funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders' funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts profit can be reserved as "Profit Equalization Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES continued

Cash and cash equivalents

For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Trade and settlement date accounting

All "regular way" purchase and sales of financial assets are recognized on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Prohibited income

According to the Fatwa and Shari'a Supervisory Board "FSSB", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Group under the supervision of the FSSB (as purification amount).

Fiduciary assets

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

Foreign currencies

The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in 'net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated income statement in 'net fees and commission income' when the guarantee is discharged, cancelled or expires.

Segment reporting

The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

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

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Vehicle murabaha	556,244	615,974
Goods murabaha	201,773	255,916
Share murabaha	702,333	494,955
Commodities murabaha – Al Khair	251,607	233,357
Other murabaha	<u>57,184</u>	<u>67,248</u>
Total murabaha	1,769,141	1,667,450
Mudaraba	116,420	189,871
Ijara	1,521,106	1,408,323
Islamic covered cards (murabaha)	181,386	158,448
Istisna'a	<u>21,347</u>	<u>28,913</u>
	<u>3,609,400</u>	<u>3,453,005</u>

6 INVESTMENT INCOME

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Income from Islamic sukuk	46,674	36,272
Income from other investment assets	9,387	33,220
Dividend income	229	949
Realised gain on sale of investments carried at fair value through profit and loss	38,217	-
Unrealised loss on investments carried at fair value through profit and loss	(8,451)	-
Realised gain on sale of available-of-sale investments	-	25
Realised gain on sale of held for trading investments	-	2,205
Unrealised gain on held for trading investments	<u>-</u>	<u>3,028</u>
	<u>86,056</u>	<u>75,699</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

7 FEES AND COMMISSION INCOME, NET

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Fees and commission income		
Fees and commission income on cards	207,185	142,160
Trade related fees and commission	76,997	61,646
Accounts services fees	66,888	66,296
Projects and property management fees	42,674	40,129
Risk participation and arrangement fees	71,588	30,277
Brokerage fees and commission	14,703	17,370
Other fees and commissions	<u>76,631</u>	<u>49,695</u>
Total fees and commission income	<u>556,666</u>	<u>407,573</u>
Fees and commission expenses		
Card related fees and commission expenses	(102,022)	(47,639)
Other fees and commission expenses	<u>(25,305)</u>	<u>(16,609)</u>
Total fees and commission expenses	<u>(127,327)</u>	<u>(64,248)</u>
Fees and commission income, net	<u>429,339</u>	<u>343,325</u>

8 INCOME FROM INVESTMENT PROPERTIES

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Proceeds from sale of investment properties	248	-
Less: cost of properties sold (note 22)	<u>(321)</u>	<u>-</u>
Loss on sale of investment properties	(73)	-
Rental income	<u>7,816</u>	<u>5,265</u>
	<u>7,743</u>	<u>5,265</u>

9 INCOME (LOSS) FROM DEVELOPMENT PROPERTIES

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Revenue from sale of development properties	10,989	77,485
Less: cost of properties sold (note 23)	<u>(6,706)</u>	<u>(43,882)</u>
Gain on sale of development properties	4,283	33,603
Provision for rent guarantee	<u>(105)</u>	<u>(37,903)</u>
	<u>4,178</u>	<u>(4,300)</u>

Provision for rent guarantee represents provision against the minimum rental income guaranteed by a subsidiary of the Bank to the buyers of properties at the time of sale. Rent guarantee is computed as the difference between guaranteed and expected rent as of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

10 EMPLOYEES' COSTS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Salaries and wages	814,342	720,569
End of service benefits	50,713	45,351
Other staff expenses	<u>30,680</u>	<u>26,895</u>
	<u>895,735</u>	<u>792,815</u>

11 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Legal and professional expenses	89,592	96,596
Premises expenses	141,637	116,181
Marketing and advertising expenses	88,987	95,518
Communication expenses	41,601	41,750
Technology related expenses	29,808	21,143
Other operating expenses	<u>70,904</u>	<u>60,022</u>
	<u>462,529</u>	<u>431,210</u>

12 PROVISION FOR IMPAIRMENT, NET

	<i>Notes</i>	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Murabaha and mudaraba with financial institutions	17	(16,178)	38,902
Murabaha and other Islamic financing	18	331,089	558,559
Ijara financing	19	413,967	(1,297)
Direct write-off		1,149	-
Investments, net	20	1,377	50,621
Investment properties	22	1,631	18,082
Other assets	24	<u>88,035</u>	<u>84,345</u>
		<u>821,070</u>	<u>749,212</u>

The above provision for impairment includes AED 196,058 thousand (2010: AED 119,458 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

13 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Depositors and sukuk holders share of profit for the year	886,485	1,045,006
Less: pertaining to depositors' profit equalisation reserve (note 27)	<u>(75,811)</u>	<u>(15,194)</u>
	810,674	1,029,812
Less: paid during the year	<u>(652,510)</u>	<u>(797,399)</u>
Depositors and sukuk holders share of profit payable (note 28)	<u>158,164</u>	<u>232,413</u>

Share of profits distributable to customers, sukuk holders and Tier 2 wakala capital are as follows:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Saving accounts	110,669	83,919
Investment accounts	546,512	825,296
Sukuk holders and Tier 2 wakala capital	<u>229,304</u>	<u>135,791</u>
	<u>886,485</u>	<u>1,045,006</u>

14 BASIC AND DILUTED EARNINGS PER SHARE

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

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

The following reflects the income and shares data used in the earnings per share computations:

	<i>Note</i>	<i>2011</i>	<i>2010</i>
Profit for the year attributable to equity holders (AED '000)		1,154,969	1,023,345
Less: profit attributable to Tier 1 sukuk holder (AED '000)	35	<u>(120,000)</u>	<u>(120,000)</u>
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		<u>1,034,969</u>	<u>903,345</u>
Weighted average number of ordinary shares in issue at 1 January (000's)		2,364,706	1,970,588
Effect of bonus shares issued (000's)		<u>-</u>	<u>394,118</u>
Weighted average number of ordinary shares in issue at 31 December (000's)		<u>2,364,706</u>	<u>2,364,706</u>
Basic and diluted earnings per share (AED)		<u>0.438</u>	<u>0.382</u>

As of 31 December 2011 and 2010, the Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

15 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Cash on hand	1,121,403	738,396
Balances with central banks:		
- Current accounts	1,310,023	141,202
- Statutory reserve	4,216,019	3,620,648
- Islamic certificate of deposits	<u>4,559,700</u>	<u>900,089</u>
	<u>11,207,145</u>	<u>5,400,335</u>

The Bank is required to maintain statutory reserve with the Central Bank of the UAE 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 is as follows:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
UAE	11,180,439	5,374,627
Middle East	<u>26,706</u>	<u>25,708</u>
	<u>11,207,145</u>	<u>5,400,335</u>

16 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Current accounts	92,766	108,249
Wakala deposits	<u>2,422,605</u>	<u>2,798,133</u>
	<u>2,515,371</u>	<u>2,906,382</u>

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.

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

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
UAE	1,504,836	2,264,096
Middle East	5,449	4,509
Europe	35,874	34,305
Others	<u>969,212</u>	<u>603,472</u>
	<u>2,515,371</u>	<u>2,906,382</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

17 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Murabaha	5,128,884	12,748,177
Mudaraba	<u>217,428</u>	<u>265,675</u>
	5,346,312	13,013,852
Less: provision for impairment	<u>(129,811)</u>	<u>(190,310)</u>
	<u>5,216,501</u>	<u>12,823,542</u>

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

At 1 January	190,310	186,298
(Reversal) charge for the year (note 12)	(16,178)	38,902
Written off during the year	<u>(44,321)</u>	<u>(34,890)</u>
At 31 December	<u>129,811</u>	<u>190,310</u>

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

UAE	4,410,811	12,193,125
Middle East	229,943	230,270
Europe	548,322	367,421
Others	<u>157,236</u>	<u>223,036</u>
	<u>5,346,312</u>	<u>13,013,852</u>

18 MURABAHA AND OTHER ISLAMIC FINANCING

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Vehicle murabaha	7,254,813	7,904,499
Goods murabaha	3,750,614	4,168,262
Share murabaha	9,796,068	7,644,552
Commodities murabaha – Al Khair	3,762,154	3,654,793
Other murabaha	<u>2,189,802</u>	<u>2,295,820</u>
Total murabaha	26,753,451	25,667,926
Mudaraba	2,592,419	2,763,970
Islamic covered cards (murabaha)	4,156,481	4,004,584
Istisna'a	235,756	301,219
Other financing receivables	<u>163,584</u>	<u>116,809</u>
Total murabaha and other Islamic financing	33,901,691	32,854,508
Less: deferred income on murabaha	<u>(8,318,993)</u>	<u>(8,274,397)</u>
	25,582,698	24,580,111
Less: provision for impairment	<u>(2,217,139)</u>	<u>(1,897,590)</u>
	<u>23,365,559</u>	<u>22,682,521</u>

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18 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	2011			2010		
	<i>Individual impairment</i> <i>AED '000</i>	<i>Collective impairment</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>	<i>Individual impairment</i> <i>AED '000</i>	<i>Collective impairment</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
At 1 January	1,608,567	289,023	1,897,590	1,088,461	281,694	1,370,155
Charge for the year (note 12)	232,849	98,240	331,089	551,230	7,329	558,559
Written off during the year	<u>(11,540)</u>	<u>-</u>	<u>(11,540)</u>	<u>(31,124)</u>	<u>-</u>	<u>(31,124)</u>
At 31 December	<u>1,829,876</u>	<u>387,263</u>	<u>2,217,139</u>	<u>1,608,567</u>	<u>289,023</u>	<u>1,897,590</u>

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

	2011 <i>AED '000</i>	2010 <i>AED '000</i>
<i>Industry sector:</i>		
Government	131,803	242,115
Public sector	216,847	89,294
Corporates	5,517,910	5,743,157
Financial institutions	590,049	614,920
Individuals	18,592,543	17,422,133
Small and medium enterprises	<u>533,546</u>	<u>468,492</u>
	<u>25,582,698</u>	<u>24,580,111</u>
<i>Geographic region:</i>		
UAE	24,427,314	23,387,881
Middle East	759,202	783,656
Europe	363,382	377,757
Others	<u>32,800</u>	<u>30,817</u>
	<u>25,582,698</u>	<u>24,580,111</u>

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19 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.

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
The aggregate future lease receivables are as follows:		
Due within one year	6,405,365	6,371,984
Due in the second to fifth year	17,025,468	16,739,421
Due after five years	<u>9,347,515</u>	<u>8,789,073</u>
Total ijara financing	32,778,348	31,900,478
Less: deferred income	<u>(6,519,499)</u>	<u>(6,251,307)</u>
Net present value of minimum lease payments receivable	26,258,849	25,649,171
Less: provision for impairment	<u>(793,067)</u>	<u>(379,100)</u>
	<u>25,465,782</u>	<u>25,270,071</u>

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

	<i>2011</i>			<i>2010</i>		
	<i>Individual impairment AED '000</i>	<i>Collective impairment AED '000</i>	<i>Total AED '000</i>	<i>Individual impairment AED '000</i>	<i>Collective impairment AED '000</i>	<i>Total AED '000</i>
At 1 January	92,779	286,321	379,100	144,737	235,906	380,643
Charge (reversal) for the year (note 12)	324,706	89,261	413,967	(51,712)	50,415	(1,297)
Written off during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(246)</u>	<u>-</u>	<u>(246)</u>
At 31 December	<u>417,485</u>	<u>375,582</u>	<u>793,067</u>	<u>92,779</u>	<u>286,321</u>	<u>379,100</u>

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

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
<i>Industry sector:</i>		
Government	165,087	119,191
Public sector	2,285,682	2,173,962
Corporates	10,327,176	9,589,736
Financial institutions	678,460	827,682
Individuals	12,394,098	12,567,807
Small and medium enterprises	<u>408,346</u>	<u>370,793</u>
	<u>26,258,849</u>	<u>25,649,171</u>
<i>Geographic region:</i>		
UAE	25,439,128	24,774,860
Middle East	15,670	20,890
Others	<u>804,051</u>	<u>853,421</u>
	<u>26,258,849</u>	<u>25,649,171</u>

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20 INVESTMENTS

The analysis of the Group's investments as of 31 December 2011 (classified in accordance with IFRS 9) was as follows:

	<i>2011</i> <i>AED '000</i>
<i>Investments carried at fair value through profit or loss ("FVTPL")</i>	
Equities	2,625
Sukuk	<u>846,361</u>
	<u>848,986</u>
<i>Investments carried at fair value through other comprehensive income ("FVTOCI")</i>	
Quoted investments	
Equities	<u>16,454</u>
Unquoted investments	
Funds	174,723
Private equities	<u>172,033</u>
	<u>346,756</u>
	<u>363,210</u>
<i>Investments carried at amortised cost</i>	
Sukuk	<u>440,409</u>
Total investments	<u>1,652,605</u>

The analysis of the Group's investments as of 31 December 2010 (classified in accordance with IAS 39) was as follows:

	<i>2010</i> <i>AED '000</i>
<i>Held for trading</i>	
Equities	6,920
Sukuk	<u>329,353</u>
	<u>336,273</u>
<i>Available-for-sale</i>	
Quoted investments	
Equities	58,817
Sukuk	<u>604,280</u>
	<u>663,097</u>
Unquoted investments	
Funds	223,322
Private equities	<u>281,272</u>
	<u>504,594</u>
	<u>1,167,691</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 INVESTMENTS continued

	<i>2010</i> <i>AED '000</i>
<i>Held to maturity</i>	
Sukuk	<u>135,450</u>
Total investments	<u>1,639,414</u>

Investments in private equity funds represent investments made in funds and limited partnerships to fund primary investment commitments in target companies with the objective of generating returns outperforming the public equity markets.

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

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
At 1 January - audited	108,391	57,770
Transition adjustment upon adoption of IFRS 9 (note 3.2)	<u>(31,727)</u>	-
At 1 January - adjusted	76,664	57,770
Charge for the year (note 12)	<u>1,377</u>	<u>50,621</u>
At 31 December	<u>78,041</u>	<u>108,391</u>

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

UAE	1,109,453	1,147,659
Middle East	422,111	465,031
Europe	178	104
Others	<u>198,904</u>	<u>135,011</u>
	<u>1,730,646</u>	<u>1,747,805</u>

21 INVESTMENT IN ASSOCIATES

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Cost of investment in associates	861,273	861,273
Share of results	12,479	(4,860)
Dividends received	(1,710)	-
Foreign currency translation	<u>12,244</u>	<u>13,565</u>
	884,286	869,978
Less: provision for impairment	<u>(32,783)</u>	<u>(32,783)</u>
	<u>851,503</u>	<u>837,195</u>

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31 December 2011

21 INVESTMENT IN ASSOCIATES continued

Details of the Bank's investment in associates at 31 December is as follows:

<i>Name of associate</i>	<i>Place of incorporation</i>	<i>Proportion of ownership interest and voting power</i>		<i>Principal activity</i>
		<i>2011</i>	<i>2010</i>	
		<i>%</i>	<i>%</i>	
Abu Dhabi National Takaful PJSC	UAE	40	40	Islamic insurance
BBI Leasing and Real Estate D.O.O	Bosnia	32	32	Islamic leasing and real estate
Bosna Bank International D.D	Bosnia	27	27	Islamic banking
National Bank for Development	Egypt	49	49	Banking (under conversion to Islamic bank)

Summarised financial information of investment in associates is set out below:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
<i>Share of associates' statement of financial position</i>		
Assets	4,258,643	3,634,996
Liabilities	(4,412,165)	(3,879,386)
Net assets	<u>(153,522)</u>	<u>(244,390)</u>
<i>Share of associates' revenue and profits:</i>		
Revenue for the year	<u>104,843</u>	<u>105,110</u>
Profit for the year	<u>17,339</u>	<u>14,798</u>

As of 31 December 2011, the Bank's share of the contingent liabilities and commitments of associates amounted to AED 148,438 thousand (2010: AED 155,040 thousand).

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

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
UAE	127,633	117,337
Europe	69,095	65,083
Others	<u>687,558</u>	<u>687,558</u>
	<u>884,286</u>	<u>869,978</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22 INVESTMENT PROPERTIES

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

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
2011			
Cost:			
Balance at 1 January	30,452	192,043	222,495
Transfer from development properties (note 23)	-	93,439	93,439
Transfer from other assets (note 40)	-	66,027	66,027
Transfer to property and equipment	-	(204,011)	(204,011)
Disposals (note 8)	<u>(321)</u>	<u>-</u>	<u>(321)</u>
Gross balance at 31 December	30,131	147,498	177,629
Less: provision for impairment	<u>(5,542)</u>	<u>(9,219)</u>	<u>(14,761)</u>
Net balance at 31 December	<u>24,589</u>	<u>138,279</u>	<u>162,868</u>
Accumulated depreciation:			
Balance at 1 January	-	12,759	12,759
Charge for the year	-	5,793	5,793
Relating to transfer to property and equipment	<u>-</u>	<u>(10,924)</u>	<u>(10,924)</u>
Balance at 31 December	<u>-</u>	<u>7,628</u>	<u>7,628</u>
Net book value at 31 December	<u>24,589</u>	<u>130,651</u>	<u>155,240</u>
2010			
Cost:			
Balance at 1 January	30,452	185,046	215,498
Transfer from other assets (note 40)	<u>-</u>	<u>6,997</u>	<u>6,997</u>
Gross balance at 31 December	30,452	192,043	222,495
Less: provision for impairment	<u>(5,442)</u>	<u>(12,640)</u>	<u>(18,082)</u>
Net balance at 31 December	<u>25,010</u>	<u>179,403</u>	<u>204,413</u>
Accumulated depreciation:			
Balance at 1 January	-	8,737	8,737
Charge for the year	<u>-</u>	<u>4,022</u>	<u>4,022</u>
Balance at 31 December	<u>-</u>	<u>12,759</u>	<u>12,759</u>
Net book value at 31 December	<u>25,010</u>	<u>166,644</u>	<u>191,654</u>

The Bank has reclassified investment properties with carrying value of AED 188,135 thousand to property and equipment based on managements' reassessment of future use of these properties.

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 7,816 thousand (2010: AED 5,265 thousand).

The fair values of investment properties at 31 December 2011 amounted to AED 173,064 thousand (2010: AED 203,693 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualification and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or based on valuation models.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

22 INVESTMENT PROPERTIES continued

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

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
At 1 January 2010	-	-	-
Charge for the year (note 12)	<u>5,442</u>	<u>12,640</u>	<u>18,082</u>
At 1 January 2011	5,442	12,640	18,082
Charge for the year (note 12)	100	1,531	1,631
Written off during the year	<u>-</u>	<u>(4,952)</u>	<u>(4,952)</u>
At 31 December 2011	<u>5,542</u>	<u>9,219</u>	<u>14,761</u>

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

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
2011:			
UAE	21,883	139,870	161,753
Middle East	<u>8,248</u>	<u>-</u>	<u>8,248</u>
	<u>30,131</u>	<u>139,870</u>	<u>170,001</u>
2010:			
UAE	21,883	179,284	201,167
Middle East	<u>8,569</u>	<u>-</u>	<u>8,569</u>
	<u>30,452</u>	<u>179,284</u>	<u>209,736</u>

23 DEVELOPMENT PROPERTIES

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

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Balance at 1 January	1,050,445	931,070
Additions	16,447	75,800
Transfer to investment properties (note 22)	(93,439)	-
Transfer from other assets (note 40)	-	87,457
Disposals (note 9)	<u>(6,706)</u>	<u>(43,882)</u>
Balance at 31 December	<u>966,747</u>	<u>1,050,445</u>

Development properties include land with a carrying value of AED 800,000 thousand (2010: AED 815,750 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

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24 OTHER ASSETS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Advances against purchase of properties	1,299,280	1,247,680
Trade receivables	277,761	214,345
Cheques for collection	2,614	3,382
Prepaid expenses	259,880	180,571
Income receivable	6,017	16,616
Advance to contractors	1,653	8,443
Advance for investments	183,625	290,017
Others	<u>177,323</u>	<u>129,955</u>
	2,208,153	2,091,009
Less: provision for impairment	<u>(243,503)</u>	<u>(220,937)</u>
	<u>1,964,650</u>	<u>1,870,072</u>

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

	<i>Advances against purchase of properties AED '000</i>	<i>Trade receivables AED '000</i>	<i>Advance for investments AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
At 1 January 2010	-	46,547	106,392	-	152,939
Charge for the year (note 12)	74,031	(100)	-	10,414	84,345
Written off during the year	<u>-</u>	<u>(16,347)</u>	<u>-</u>	<u>-</u>	<u>(16,347)</u>
At 1 January 2011	74,031	30,100	106,392	10,414	220,937
Charge for the year (note 12)	184,013	-	(106,392)	10,414	88,035
Written off during the year	<u>(65,469)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(65,469)</u>
At 31 December 2011	<u>192,575</u>	<u>30,100</u>	<u>-</u>	<u>20,828</u>	<u>243,503</u>

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25 PROPERTY AND EQUIPMENT

	<i>Land</i> AED '000	<i>Buildings</i> AED '000	<i>Furniture and fixtures</i> AED '000	<i>Computer and office equipment</i> AED '000	<i>Motor vehicles</i> AED '000	<i>Capital work-in progress</i> AED '000	<i>Total</i> AED '000
2011							
Cost or revaluation:							
At 1 January	129,315	14,838	199,647	304,133	9,818	196,546	854,297
Additions	-	350	8,557	66,197	1,986	158,361	235,451
Transfers from capital work-in-progress	-	42,753	41,239	8,519	-	(92,511)	-
Transfer from investment properties	98,402	89,733	-	-	-	-	188,135
Transfer from other assets (note 40)	-	37,574	-	-	-	-	37,574
Surplus on revaluation (note 34)	13,761	-	-	-	-	-	13,761
Disposals	-	-	(1,514)	-	(131)	-	(1,645)
At 31 December	<u>241,478</u>	<u>185,248</u>	<u>247,929</u>	<u>378,849</u>	<u>11,673</u>	<u>262,396</u>	<u>1,327,573</u>
Depreciation:							
At 1 January	-	2,951	83,797	175,889	5,773	-	268,410
Charge for the year	-	2,536	26,735	54,214	2,112	-	85,597
Relating to disposals	-	-	(285)	-	(112)	-	(397)
At 31 December	-	<u>5,487</u>	<u>110,247</u>	<u>230,103</u>	<u>7,773</u>	-	<u>353,610</u>
Net book value							
At 31 December	<u>241,478</u>	<u>179,761</u>	<u>137,682</u>	<u>148,746</u>	<u>3,900</u>	<u>262,396</u>	<u>973,963</u>
2010							
Cost or revaluation:							
At 1 January	129,315	14,838	143,932	190,470	9,140	86,771	574,466
Additions	-	-	42,239	95,957	1,102	140,957	280,255
Transfers	-	-	13,476	17,706	-	(31,182)	-
Disposals	-	-	-	-	(424)	-	(424)
At 31 December	<u>129,315</u>	<u>14,838</u>	<u>199,647</u>	<u>304,133</u>	<u>9,818</u>	<u>196,546</u>	<u>854,297</u>
Depreciation:							
At 1 January	-	2,206	61,748	127,286	4,401	-	195,641
Charge for the year	-	745	22,049	48,603	1,796	-	73,193
Relating to disposals	-	-	-	-	(424)	-	(424)
At 31 December	-	<u>2,951</u>	<u>83,797</u>	<u>175,889</u>	<u>5,773</u>	-	<u>268,410</u>
Net book value							
At 31 December	<u>129,315</u>	<u>11,887</u>	<u>115,850</u>	<u>128,244</u>	<u>4,045</u>	<u>196,546</u>	<u>585,887</u>

During 2011, the Bank revalued plots of land held for its own use to their estimated fair value based on professional valuations performed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualification and experience in the valuation of properties in the UAE. The fair value of the land has been determined either based on transactions observable in the market or based on valuation models. The surplus on revaluation of land was transferred to the revaluation reserve within equity which is not available for distribution to shareholders.

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26 DUE TO FINANCIAL INSTITUTIONS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Current accounts	171,203	240,660
Investment deposits	<u>1,760,223</u>	<u>650,730</u>
	<u>1,931,426</u>	<u>891,390</u>

The distribution of due to financial institutions by geographic region was as follows:

UAE	753,337	68,487
Middle East	143,174	507,458
Europe	163,473	169,147
Others	<u>871,442</u>	<u>146,298</u>
	<u>1,931,426</u>	<u>891,390</u>

27 DEPOSITORS' ACCOUNTS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Current accounts	14,234,786	12,635,323
Saving accounts	11,182,629	8,911,158
Investment accounts	29,613,769	34,905,776
Profit equalisation reserve	<u>140,599</u>	<u>64,788</u>
	<u>55,171,783</u>	<u>56,517,045</u>

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

At 1 January	64,788	49,594
Share of profit for the year (note 13)	<u>75,811</u>	<u>15,194</u>
At 31 December	<u>140,599</u>	<u>64,788</u>

The distribution of the gross depositors' accounts by segment and industry sector, geographic region and currency was as follows:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Industry sector:		
Government	7,555,541	8,736,816
Public sector	8,208,031	9,999,671
Corporates	5,058,507	7,414,994
Financial institutions	2,709,678	2,286,598
Individuals	25,473,050	22,098,723
Small and medium enterprises	<u>6,166,976</u>	<u>5,980,243</u>
	<u>55,171,783</u>	<u>56,517,045</u>

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27 DEPOSITORS' ACCOUNTS continued

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Geographic region:		
UAE	54,956,943	56,077,875
Middle East	42,779	289,220
Europe	5,074	1,793
Others	<u>166,987</u>	<u>148,157</u>
	<u>55,171,783</u>	<u>56,517,045</u>
Currencies:		
UAE Dirham	45,630,631	46,347,084
US Dollar	9,146,904	9,901,370
Euro	355,754	233,890
Sterling Pound	35,153	32,780
Others	<u>3,341</u>	<u>1,921</u>
	<u>55,171,783</u>	<u>56,517,045</u>

The Bank invests all of its investment accounts including saving accounts, adjusted for UAE 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).

28 OTHER LIABILITIES

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Accounts payable	349,922	566,690
Payable for purchase of properties	64,578	109,679
Accrued profit for distribution to depositors and sukuk holders (note 13)	158,164	232,413
Bankers' cheques	137,903	62,108
Provision for staff benefits and other expenses	258,895	214,901
Retentions payable	274,202	345,815
Advances from customers	58,803	29,079
Accrued legal and professional charges	3,494	6,729
Accrued expenses	73,003	45,569
Unclaimed dividends	90,831	51,769
Deferred income	26,679	62,932
Charity account	6,528	6,000
Donation account	344	4,198
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 38)	19,578	8,642
Others	<u>339,833</u>	<u>344,976</u>
	<u>1,862,757</u>	<u>2,091,500</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29 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.

30 SUKUK FINANCING INSTRUMENTS

	<i>2011</i>	<i>2010</i>
	<i>AED ‘000</i>	<i>AED ‘000</i>
First issue	-	2,938,000
Second issue	2,754,375	2,501,523
Third issue	<u>1,836,250</u>	<u>-</u>
	<u>4,590,625</u>	<u>5,439,523</u>

First issue - USD 800 million

In December 2011, the Bank purchased back the sukukholders’ entire Co-Owned Assets of the first issue of medium term sukuk amounting to AED 2,938,000 thousand (USD 800 million) under a USD 5 billion programme.

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 December 2010, sukuk with a face value of AED 252,852 thousand (USD 68.9 million) were repurchased by the Bank.

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 4,590,625 thousand (USD 1,250 million) (31 December 2010: AED 5,692,375 thousand (USD 1,550 million)).

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31 SHARE CAPITAL

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
<i>Authorised share capital:</i>		
3,000,000 thousand (2010: 3,000,000 thousand)		
ordinary shares of AED 1 each (2010: AED 1 each)	<u>3,000,000</u>	<u>3,000,000</u>
<i>Issued and fully paid share capital:</i>		
At 1 January		
2,364,706 thousand (2010: 1,970,588 thousand)		
ordinary shares of AED 1 each (2010: AED 1 each)	2,364,706	1,970,588
Bonus shares issued	<u>-</u>	<u>394,118</u>
At 31 December		
2,364,706 thousand (2010: 2,364,706 thousand)		
ordinary shares of AED 1 each (2010: AED 1 each)	<u>2,364,706</u>	<u>2,364,706</u>

32 RESERVES

32.1 Legal reserve

As required by the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended) and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. The legal reserve is not available for distribution to the shareholders.

As per Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year.

32.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the Annual General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

33 PROPOSED DIVIDENDS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Cash dividend: AED 0.2442 per share of AED 1 each (2010: AED 0.2164 per share of AED 1 each)	<u>577,546</u>	<u>511,783</u>

Cash dividend of 24.42% (2010: 21.64%) of the paid up capital relating to year ended 31 December 2011 amounting to AED 577,546 thousand (2010: AED 511,783 thousand) shall be paid after the approval by the shareholders in the Annual General Assembly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 OTHER RESERVES

	<i>Cumulative changes in fair values AED '000</i>	<i>Land revaluation reserve AED '000</i>	<i>Foreign currency translation reserve AED '000</i>	<i>Hedging reserve AED '000</i>	<i>Total AED '000</i>
At 1 January 2010	(167,560)	129,239	19,940	(6,076)	(24,457)
Net gain on valuation of available-for-sale investments	24,899	-	-	-	24,899
Impairment on available-for-sale investments (note 12)	50,621	-	-	-	50,621
Exchange differences arising on translation of foreign operations	-	-	(6,375)	-	(6,375)
Fair value loss on cash flow hedges	-	-	-	(2,566)	(2,566)
At 1 January 2011 - audited	(92,040)	129,239	13,565	(8,642)	42,122
Transition adjustment on adoption of IFRS 9 (note 3.2)	(5,746)	-	-	-	(5,746)
At 1 January 2011 – adjusted	(97,786)	129,239	13,565	(8,642)	36,376
Net loss on valuation of investments carried at FVTOCI	(86,616)	-	-	-	(86,616)
Loss on disposal of investment carried at fair value through other comprehensive income	19,372	-	-	-	19,372
Surplus on revaluation of land (note 25)	-	13,761	-	-	13,761
Exchange differences arising on translation of foreign operations	-	-	(1,321)	-	(1,321)
Gain on hedge of foreign operations	-	-	1,321	-	1,321
Fair value loss on cash flow hedges	-	-	-	(10,936)	(10,936)
At 31 December 2011	(165,030)	143,000	13,565	(19,578)	(28,043)

35 TIER 1 SUKUK

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk") 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 was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

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 subject to certain conditions. The Sukuk 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.

36 NON-CONTROLLING INTEREST

Non-controlling interest represents the minority shareholder's proportionate share in the aggregate value of the net assets of a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37 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:

	<i>2011</i>	<i>2010</i>
	<i>AED '000</i>	<i>AED '000</i>
<i>Contingent liabilities</i>		
Letters of credit	1,666,121	1,077,025
Letters of guarantee	9,003,727	7,004,417
Acceptances	<u>439,322</u>	<u>173,516</u>
	<u>11,109,170</u>	<u>8,254,958</u>
<i>Commitments</i>		
Undrawn facilities commitments	1,293,858	2,047,396
Investment securities	70,700	144,200
Future capital expenditure	345,750	42,325
Investment and development properties	<u>1,559,443</u>	<u>1,667,163</u>
	<u>3,269,751</u>	<u>3,901,084</u>
	<u>14,378,921</u>	<u>12,156,042</u>

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For Shari'a compliant alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

The table below shows the fair values of Shari'a compliant alternatives of derivative financial instruments, together with the notional amounts analysed by term of maturity. The notional amount is based on the amount of the underlying transaction, reference rate or index and is the basis upon which changes in the value of transactions are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of the market risk nor credit risk.

31 December 2011: Notional amount by term to maturity

	<i>Negative fair value AED '000</i>	<i>Notional amount AED '000</i>	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>
Shari'a compliant alternatives of swap (note 28)	<u>19,578</u>	<u>1,382,631</u>	<u>631,583</u>	<u>254,298</u>	<u>496,750</u>	<u>-----</u>

31 December 2010: Notional amount by term to maturity

Shari'a compliant alternatives of swap (note 28)	<u>8,642</u>	<u>915,777</u>	<u>-----</u>	<u>734,500</u>	<u>180,617</u>	<u>-----</u>
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39 ZAKAT

The Bank's Articles of Association do not authorise management to pay Zakat directly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 134,112 thousand (2010: AED 128,696 thousand) and accordingly, Zakat is estimated at AED 0.05671 (2010: AED 0.05442) per outstanding share.

40 CASH AND CASH EQUIVALENTS

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Cash and balances with central banks, short term	6,647,445	4,500,246
Balances and wakala deposits with Islamic banks and other financial institutions, short term	2,331,413	2,652,442
Murabaha and mudaraba with financial institutions, short term	3,955,808	9,304,138
Due to financial institutions, short term	<u>(1,542,202)</u>	<u>(500,923)</u>
	<u>11,392,464</u>	<u>15,955,903</u>

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Transfer from investment properties to property and equipment (note 25)	<u>188,135</u>	<u>-</u>
Transfer from other assets to property and equipment (note 25)	<u>37,574</u>	<u>-</u>
Surplus on revaluation on land (note 25)	<u>13,761</u>	<u>-</u>
Transfer from development properties to investment properties (note 23)	<u>93,439</u>	<u>-</u>
Transfer from other assets to investment properties (note 22)	<u>66,027</u>	<u>6,997</u>
Transfer from other assets to development properties (note 23)	<u>-</u>	<u>87,457</u>

41 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions at commercial profit and commission rates, 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 financing to related parties are performing financing 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41 RELATED PARTY TRANSACTIONS continued

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

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
31 December 2011					
Income from murabaha, mudaraba and wakala with financial institutions	<u>-</u>	<u>-</u>	<u>2,935</u>	<u>-</u>	<u>2,935</u>
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	<u>110,340</u>	<u>341</u>	<u>-</u>	<u>165,487</u>	<u>276,168</u>
Investment income	<u>5,973</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,973</u>
Fees and commission income, net	<u>11,410</u>	<u>-</u>	<u>-</u>	<u>9,452</u>	<u>20,862</u>
Operating expenses	<u>-</u>	<u>450</u>	<u>-</u>	<u>-</u>	<u>450</u>
Distribution to depositors and sukuk holders	<u>75</u>	<u>48</u>	<u>526</u>	<u>325</u>	<u>974</u>
31 December 2010					
Income from murabaha, mudaraba and wakala with financial institutions	<u>-</u>	<u>-</u>	<u>1,195</u>	<u>-</u>	<u>1,195</u>
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	<u>117,620</u>	<u>134</u>	<u>-</u>	<u>152,536</u>	<u>270,290</u>
Fees and commission income, net	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Operating expenses	<u>-</u>	<u>183</u>	<u>-</u>	<u>-</u>	<u>183</u>
Distribution to depositors and sukuk holders	<u>59</u>	<u>44</u>	<u>2,083</u>	<u>3,055</u>	<u>5,241</u>

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

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
31 December 2011					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	927,919	-	927,919
Murabaha, mudaraba, ijara and other Islamic financing	2,432,231	11,476	-	2,899,814	5,343,521
Other assets	<u>-</u>	<u>-</u>	<u>3,103</u>	<u>183,625</u>	<u>186,728</u>
	<u>2,432,231</u>	<u>11,476</u>	<u>931,022</u>	<u>3,083,439</u>	<u>6,458,168</u>
Due to financial institutions	-	-	3,192	-	3,192
Depositors' accounts	15,966	7,797	35,236	75,218	134,217
Other liabilities	<u>4</u>	<u>-</u>	<u>46</u>	<u>1,563</u>	<u>1,613</u>
	<u>15,970</u>	<u>7,797</u>	<u>38,474</u>	<u>76,781</u>	<u>139,022</u>
Undrawn facilities commitments	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,517</u>	<u>1,517</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

41 RELATED PARTY TRANSACTIONS continued

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
31 December 2010					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	569,735	-	569,735
Murabaha, mudaraba, ijara and other Islamic financing	2,270,460	8,409	-	2,556,854	4,835,723
Other assets	<u>3,982</u>	<u>-</u>	<u>2,736</u>	<u>183,694</u>	<u>190,412</u>
	<u>2,274,442</u>	<u>8,409</u>	<u>572,471</u>	<u>2,740,548</u>	<u>5,595,870</u>
Due to financial institutions	-	-	1,800	-	1,800
Depositors' accounts	9,785	12,713	74,344	70,075	166,917
Other liabilities	<u>4</u>	<u>-</u>	<u>420</u>	<u>1,563</u>	<u>1,987</u>
	<u>9,789</u>	<u>12,713</u>	<u>76,564</u>	<u>71,638</u>	<u>170,704</u>
Undrawn facilities commitments	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,517</u>	<u>1,517</u>

Compensation of key management personnel

The compensation of key management personnel during the year was as follows:

	2011 AED '000	2010 AED '000
Salaries and other benefits	29,936	24,051
Employees' end of service benefits	<u>3,319</u>	<u>2,253</u>
	<u>33,255</u>	<u>26,304</u>

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 consolidated statement of comprehensive income.

Board of Directors remuneration for the year ended 31 December 2011 amounting to AED 4,200 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2011, AED 4,200 thousand was paid to Board of Directors pertaining to the year ended 31 December 2010 after the approval by the shareholders in the Annual General Assembly held on 31 March 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42 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.

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.

Business segments information for the year ended 31 December 2011 were as follows:

	<i>Retail banking AED '000</i>	<i>Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Capital markets AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
Revenue and results							
Segment revenues, net	2,191,820	869,274	231,159	127,140	143	6,279	3,425,815
Operating expenses excluding provision for impairment, net	<u>(967,328)</u>	<u>(193,028)</u>	<u>(86,476)</u>	<u>(62,529)</u>	<u>(78,199)</u>	<u>(62,094)</u>	<u>(1,449,654)</u>
Operating profit (margin)	1,224,492	676,246	144,683	64,611	(78,056)	(55,815)	1,976,161
Provision for impairment, net	<u>(240,844)</u>	<u>(155,314)</u>	<u>(228,854)</u>	<u>-</u>	<u>(196,058)</u>	<u>-</u>	<u>(821,070)</u>
Profit (loss) for the year	<u>983,648</u>	<u>520,932</u>	<u>(84,171)</u>	<u>64,611</u>	<u>(274,114)</u>	<u>(55,815)</u>	<u>1,155,091</u>
Non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>(122)</u>	<u>-</u>	<u>-</u>	<u>(122)</u>
Profit (loss) for the year attributable to equity holders of the Bank	<u>983,648</u>	<u>520,932</u>	<u>(84,171)</u>	<u>64,489</u>	<u>(274,114)</u>	<u>(55,815)</u>	<u>1,154,969</u>
Assets							
Segmental assets	<u>25,785,489</u>	<u>18,863,772</u>	<u>6,121,370</u>	<u>19,941,941</u>	<u>2,715,080</u>	<u>907,414</u>	<u>74,335,066</u>
Liabilities							
Segmental liabilities	<u>25,267,760</u>	<u>17,015,481</u>	<u>6,520,916</u>	<u>16,294,716</u>	<u>278,126</u>	<u>387,000</u>	<u>65,763,999</u>

Abu Dhabi Islamic Bank PJSC

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31 December 2011

42 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2010 were as follows:

	<i>Retail banking AED '000</i>	<i>Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Capital markets AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
Revenue and results							
Segment revenues, net	2,016,538	709,399	154,634	189,008	5,056	(618)	3,074,017
Operating expenses excluding provision for impairment, net	<u>(850,005)</u>	<u>(174,043)</u>	<u>(77,197)</u>	<u>(54,456)</u>	<u>(82,432)</u>	<u>(63,107)</u>	<u>(1,301,240)</u>
Operating profit (margin)	1,166,533	535,356	77,437	134,552	(77,376)	(63,725)	1,772,777
Provision for impairment, net	<u>(165,465)</u>	<u>(399,509)</u>	<u>(58,730)</u>	<u>(6,050)</u>	<u>(119,458)</u>	<u>-</u>	<u>(749,212)</u>
Profit (loss) for the year	<u>1,001,068</u>	<u>135,847</u>	<u>18,707</u>	<u>128,502</u>	<u>(196,834)</u>	<u>(63,725)</u>	<u>1,023,565</u>
Non-controlling interest	-	-	-	(220)	-	-	(220)
Profit (loss) for the year attributable to equity holders of the Bank	<u>1,001,068</u>	<u>135,847</u>	<u>18,707</u>	<u>128,282</u>	<u>(196,834)</u>	<u>(63,725)</u>	<u>1,023,345</u>
Assets							
Segmental assets	<u>23,481,356</u>	<u>18,572,025</u>	<u>7,323,063</u>	<u>22,258,929</u>	<u>2,908,311</u>	<u>713,834</u>	<u>75,257,518</u>
Liabilities							
Segmental liabilities	<u>21,013,344</u>	<u>20,994,935</u>	<u>7,796,163</u>	<u>16,625,052</u>	<u>376,340</u>	<u>341,032</u>	<u>67,146,866</u>

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	<i>Retail banking AED '000</i>	<i>Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Capital markets AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
2011							
External revenues, net	2,297,527	946,620	273,031	(96,644)	143	5,138	3,425,815
Inter-segment revenues, net	<u>(105,707)</u>	<u>(77,346)</u>	<u>(41,872)</u>	<u>223,784</u>	<u>-</u>	<u>1,141</u>	<u>-</u>
Segment revenues, net	<u>2,191,820</u>	<u>869,274</u>	<u>231,159</u>	<u>127,140</u>	<u>143</u>	<u>6,279</u>	<u>3,425,815</u>
2010							
External revenues, net	2,175,403	739,974	219,135	(66,380)	5,056	829	3,074,017
Inter-segment revenues, net	<u>(158,865)</u>	<u>(30,575)</u>	<u>(64,501)</u>	<u>255,388</u>	<u>-</u>	<u>(1,447)</u>	<u>-</u>
Segment revenues, net	<u>2,016,538</u>	<u>709,399</u>	<u>154,634</u>	<u>189,008</u>	<u>5,056</u>	<u>(618)</u>	<u>3,074,017</u>

Geographical information

The Bank operates principally in the United Arab Emirates and has only one branch overseas, in Iraq. Given that, UAE contributes the majority of the revenues and the Bank'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 given.

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43 RISK MANAGEMENT

43.1 Introduction

Risk is inherent in all of the Group's activities. It is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls in accordance to regulatory requirements. This process of risk management is critical to the Group's continuing profitability, and each individual within the Group is accountable for the risk exposures relating to his responsibilities and for the observance of documented policies and procedures which govern this process. The Group is exposed principally to credit risk, liquidity risk, market risk and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

43.1.1 Risk management governance structure

Changes made during the year ended 31 December 2010 to strengthen the overall governance structure of the group in the area of Risk Management have been successfully embedded. These changes were made as a natural consequence of the growth and development of the Bank's business. The key features are as follows:

The Board of Directors ("Board") continues to have overall responsibility for the establishment and oversight of the Bank's risk management framework, as well as for approving the Bank's overall risk appetite, and ensuring that business is conducted within this framework. The Board is the ultimate sanctioning authority.

Group Strategy Execution Committee ("GSEC")

The GSEC is responsible, amongst a number of other duties, for the review and approval of all major exposures and investments, within authorized limits and Board guidelines. The GSEC is appointed by the Board and has been given the delegated authority by the Board to assist the Groups executive management teams execute the Board's strategy and achieve the Group's strategic objectives. The authorities delegated to the GSEC by the Board, as they pertain to the Risk Management Governance function include:

- Reviewing and approving the delegation of approval authority to management in regard to the overall policies and procedures of the Group;
- Approving the authorities delegated to the Group's executives; and
- Approval of significant and high value transactions in regard to credit facilities, acquisitions and divestitures, new business initiatives and proprietary investments within the GSEC's delegation of authority.

Duties and responsibilities of the GSEC are governed by a formally approved charter. The GSEC replaced the Executive Committee of the Board.

Group Risk Policy Committee ("GRPC")

The GRPC is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following:

- Approving and recommending to the Board when necessary the policies, standards, guidelines and procedures for risk assessment and risk management;
- Reviewing and approving the risk inherent in the business of the Group and the control processes with respect to such risks;
- Reviewing and approving the risk profile and the risk appetite of the Group;
- Reviewing the risk management, compliance and control activities of the Group; and
- Review and approve the Internal Capital Adequacy Assessment Process ("ICAAP") and Basel II implementation.

The GRPC is comprised of three directors, all of which are non-executive directors, in addition to the Chief Executive Officer ("CEO") and the Group Chief Risk Officer ("GCRO") (non-voting member) and is chaired by a highly experienced and qualified subject matter expert, who is neither a director nor an employee of the Group. Duties and responsibilities of the GRPC are governed by a formally approved charter. The GRPC was formed during 2010 and has held regular meetings during the year as per its charter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.1 Risk management governance structure continued

Audit and Governance Committee (“AGC”)

The AGC comprises one independent member and two members representing the Board of the Bank. The AGC has the overall responsibility to oversee management activities relating to accounting and financial reporting policies and internal controls, auditing practices, and legal and regulatory compliance; to discuss the integrity of the Group’s consolidated financial statements and the adequacy and reliability of disclosures to shareholders, to review the qualifications and independence of the internal and external auditors, the performance of internal and external auditors, and to review and recommend to the Board, the corporate governance guidelines applicable to the Group. Duties and responsibilities of the AGC are governed by a formally approved charter.

- The Group Internal Audit Division (“GIAD”) reports directly to the AGC, and provides independent validation of the business units’ compliance with risk policies and procedures, together with a regular assessment as to the effectiveness and adequacy of the risk management function across the Bank.
- The risk management function is independent of the business divisions and is headed by the GCRO, who reports directly to the CEO.

The Bank realizes the importance of creating and maintaining a strong risk culture throughout the organization. The management of all types of risk is deeply embedded throughout the Bank as a core competency of every staff member. In order to promote this, the Bank places a high degree of importance on clearly written, well distributed and readily accessible policies, procedures and communication of risk issues across the Bank.

43.1.2 The Risk Management Group (“RMG”)

An independent risk organization that works in close partnership with the rest of the business to support their activities, whilst safeguarding the risk profile of the Bank. The primary objectives of the RMG, headed by the GCRO are:

- Ensure adherence and compliance of individual and portfolio performance to agreed terms and policies;
- Institute prudent control mechanisms (process and systems);
- Approve commercial and consumer financing transactions within its delegated authority;
- Ensure compliance with local legal and regulatory guidelines including those issued by the UAE Central Bank and Basel II; and
- Maintain the primary relationship with local regulators with respect to risk related issues.

Reporting to the GCRO are senior and qualified individuals who manage specific areas of risk expertise, amongst which are the Chief Credit Officer, the Market Risk Head, the Consumer Risk Head, the Financial Institution and Business Banking Risk Head, the Private Bank Risk Head, the Head of Operational Risk and the Head of Group Risk Architecture, each supported as appropriate by individuals and systems.

The “Asset Recovery Management Unit” formed last year, has continued its function during the course of 2011 with a strengthened team of recovery specialists. This is a specialized unit specifically formed to manage corporate and private Bank relationships that are impaired and experiencing difficulties in meeting their obligations to the Bank.

Basel II / Internal Capital Adequacy Assessment Process (“ICAAP”)

On 27 November 2009, Central Bank of UAE published Circular 27/2009 with regard to Basel II implementation and submission of annual ICAAP report. The first ICAAP was submitted to the UAE CB within the deadline. The second ICAAP was submitted to the UAE CB in March 2011, receiving favourable commentary with regard to the quality and thoroughness of the preparation. The Basel II FIRB implementation program initiated in the 2nd quarter of 2010, under the leadership of a dedicated Basel II Program Manager and team has continued as per plan during the course of 2011, and is due for completion during the first half of 2012. As at close of 2011, the program was fully on schedule and progressing well, thus demonstrating the Bank’s total commitment to full compliance with the requirements of the circular. This program, apart from meeting the requirements of the regulator, continues to materially enhance and strengthen the risk management capability of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.2 The Risk Management Group (“RMG”) continued

Asset & Liability Committee (“ALCO”)

The Asset & Liability Management (“ALM”) process is focused on planning, acquiring, and directing the flow of funds through the organisation. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month. A number of related policies contained within the Basel program were approved and implemented during the course of the year.

Credit Committee

All the business proposals of clients are approved through a committee empowered by the GSEC through the CEO. The Credit Committee approves all the funded and non-funded transactions within limits as delegated by the Board. The committee consists of senior management personnel including the CEO. The approval process and the authorities vested with the committee members are well defined in the Bank Credit Policy & Procedures Manual. The policy manual enumerates the various requirements and procedures to be followed in bringing a relationship to the Bank and assessment of the risks involved.

43.1.3 Risk measurement and reporting systems

In order to effectively monitor and control risks, the Policy and Portfolio Management Unit and the Credit Administration units within the risk organization is tasked, in close partnership with the relevant business units, with the documentation and communication of credit and risk related policies, the maintenance and adherence of delegated credit approval authorities, and the monitoring and general adherence to risk related policies by the business units. Within the ambit of portfolio management, specific responsibilities include:

- Preparing portfolio reports across a diverse range of indicators such as portfolio concentrations by geography, industry type, product, risk rating etc. which are used to analyse and monitor overall portfolio quality;
- Monitoring the integrity and consistency of data, including risk ratings, migration, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Setting and advising the values of input parameters to be used for the calculation of expected loss and economic capital requirements;
- Consolidation and consolidation of portfolio management data and reports for use by Executive Management and the Board; and
- The establishment and management of early warning tools to identify emerging risk problems.

On a monthly basis detailed reporting of industry, customer and geographic risks takes place and assessed against the risk profile and overall risk appetite of the Bank. Senior management assesses the appropriateness of the provision for credit losses on a monthly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Bank actively uses collateral to reduce its credit risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.4 Risk concentration

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 18 and 19.

43.1.5 Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

43.1.6 Group Internal Audit

Risk management processes throughout the Bank are reviewed periodically by the internal audit function that reviews both the adequacy of the procedures and the Bank's compliance with the procedures. Group Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the AGC. The Head of Group Internal Audit has direct reporting lines to the AGC in securing his independence and objectivity in all audit engagements undertaken within the Bank.

43.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank controls credit risk by the use of a very focused target market which defines who the Bank is prepared to deal with from a risk profile perspective, the use of Risk Acceptance Criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty, close monitoring of credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of all counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

All commercial credit risk exposures are risk rated using Moody's Risk Analyst risk rating system, recognized as an industry wide standard. During the course of the year, a number of additional rating models were added to this platform in accordance with the requirements of Basel II, and these are now well embedded. The use of Facility Risk Ratings was also introduced. Consumer exposures are rated using a pool concept as required by Basel II.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks as financing and these are mitigated by the same control processes and policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

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

	<i>Notes</i>	<i>Gross maximum exposure 2011 AED '000</i>	<i>Gross maximum exposure 2010 AED '000</i>
Balances and wakala deposits with Islamic banks and other financial institutions	16	2,515,371	2,906,382
Murabaha and mudaraba with financial institutions	17	5,346,312	13,013,852
Murabaha and other Islamic financing	18	25,582,698	24,580,111
Ijara financing	19	26,258,849	25,649,171
Investments		1,364,811	1,145,746
Other assets		<u>465,368</u>	<u>372,741</u>
		<u>61,533,409</u>	<u>67,668,003</u>
Contingent liabilities	37	11,109,170	8,254,958
Commitments		<u>1,293,858</u>	<u>2,047,396</u>
Total		<u>12,403,028</u>	<u>10,302,354</u>
Total credit risk exposure		<u>73,936,437</u>	<u>77,970,357</u>

43.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2011 was AED 5,280,107 thousand (2010: AED 5,606,752 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

The distribution of the Group's financial assets by geographic region is as follows:

	<i>Balances and wakala deposits with Islamic banks and other financial institutions AED '000</i>	<i>Murabaha and mudaraba with financial institutions AED '000</i>	<i>Murabaha and other Islamic financing AED '000</i>	<i>Ijara financing AED '000</i>	<i>Investments AED '000</i>	<i>Other assets AED '000</i>	<i>Total AED '000</i>
31 December 2011							
UAE	1,504,836	4,410,811	24,427,314	25,439,128	903,553	465,368	57,151,010
Middle East	5,449	229,943	759,202	15,670	323,636	-	1,333,900
Europe	35,874	548,322	363,382	-	-	-	947,578
Others	<u>969,212</u>	<u>157,236</u>	<u>32,800</u>	<u>804,051</u>	<u>137,622</u>	<u>-</u>	<u>2,100,921</u>
Financial assets subject to credit risk	<u>2,515,371</u>	<u>5,346,312</u>	<u>25,582,698</u>	<u>26,258,849</u>	<u>1,364,811</u>	<u>465,368</u>	<u>61,533,409</u>
31 December 2010							
UAE	2,264,096	12,193,125	23,387,881	24,774,860	811,574	372,741	63,804,277
Middle East	4,509	230,270	783,656	20,890	313,682	-	1,353,007
Europe	34,305	367,421	377,757	-	-	-	779,483
Others	<u>603,472</u>	<u>223,036</u>	<u>30,817</u>	<u>853,421</u>	<u>20,490</u>	<u>-</u>	<u>1,731,236</u>
Financial assets subject to credit risk	<u>2,906,382</u>	<u>13,013,852</u>	<u>24,580,111</u>	<u>25,649,171</u>	<u>1,145,746</u>	<u>372,741</u>	<u>67,668,003</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.2 Credit risk concentration continued

The distribution of the Group's financial assets by industry sector is as follows:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
<i>Industry sector:</i>		
Government	661,862	781,084
Public sector	2,502,529	2,263,256
Financial institutions	9,276,295	17,475,861
Trading and manufacturing	3,727,551	1,598,264
Construction and real estate	6,167,035	7,486,697
Energy	484,177	521,217
Personal	30,986,641	29,989,940
Others	<u>7,727,319</u>	<u>7,551,684</u>
Financial assets subject to credit risk	<u>61,533,409</u>	<u>67,668,003</u>

43.2.3 Impairment assessment

The main consideration for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment losses and collective impairment provisions on financing assets.

Individually assessed impairment losses on financing assets

The Bank determines the allowances appropriate for each individually significant customer financing on an individual basis. Items considered when determining impairment loss amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated on monthly basis unless unforeseen circumstances require more careful attention.

Collective impairment provisions on financing assets

Collective impairment provisions are assessed for losses on customer financing that are not individually significant where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities,
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities,
- For retail financing, charge over assets, mortgage of properties and assignment of salaries in favour of the Bank.

The Bank also obtains guarantees from parent companies for financing their subsidiaries, but their benefits are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses

The Bank also makes use of master netting agreements with counterparties.

43.2.5 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing based on the Bank's credit rating system.

	<i>Moody's equivalent grade</i>	<i>2011 AED '000</i>	<i>2010 AED '000</i>
Low risk			
Risk rating class 1	Aaa	4,394	26,177
Risk rating classes 2 and 3	Aa1-A3	4,446,789	11,379,387
Risk rating class 4	Baa1-Baa3	3,635,375	6,910,592
Risk rating classes 5 and 6	Ba1-B3	42,434,246	40,388,416
Fair risk			
Risk rating class 7	Caa1-Caa3	4,544,056	3,547,708
Impaired			
Risk rating class 8, 9 and 10		<u>4,638,370</u>	<u>3,897,236</u>
		<u>59,703,230</u>	<u>66,149,516</u>

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. In accordance with the requirements of Basel II a number of new rating models aligned to specific business segments, were introduced during the course of the year.

Renegotiated murabaha, ijara and other Islamic financings

The total carrying amount of financing whose terms have been renegotiated during the year amounted to AED 1,322,098 thousand (2010: AED 919,453 thousand).

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31 December 2011

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

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.

	<i>Balances and wakala deposits with Islamic banks and other financial institutions</i>		<i>Murabaha and mudaraba with financial institutions</i>		<i>Murabaha and other Islamic financing</i>		<i>Ijara financing</i>		<i>Investments</i>	
	<i>31 December</i>		<i>31 December</i>		<i>31 December</i>		<i>31 December</i>		<i>31 December</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Individually impaired										
Substandard	-	-	-	186,476	642,672	625,853	697,991	846,627	12,802	68,142
Doubtful	-	-	-	-	1,271,088	952,964	579,247	347,371	91,813	91,813
Loss	-	-	129,811	129,811	1,080,220	789,389	237,341	18,745	-	9,571
Gross amount	-	-	129,811	316,287	2,993,980	2,368,206	1,514,579	1,212,743	104,615	169,526
Provision for individual impairment	-	-	(129,811)	(190,310)	(1,829,876)	(1,608,567)	(417,485)	(92,779)	(78,041)	(108,391)
	-	-	-	125,977	1,164,104	759,639	1,097,094	1,119,964	26,574	61,135
Past due but not impaired										
Gross amount	-	-	-	-	220,498	877,558	1,438,185	1,125,280	-	-
Neither past due nor impaired	2,515,371	2,906,382	5,216,501	12,697,565	22,368,220	21,334,347	23,306,085	23,311,148	1,626,031	1,578,279
Collective allowance for impairment	-	-	-	-	(387,263)	(289,023)	(375,582)	(286,321)	-	-
Carrying amount	2,515,371	2,906,382	5,216,501	12,823,542	23,365,559	22,682,521	25,465,782	25,270,071	1,652,605	1,639,414

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31 December 2011

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired

	<i>Less than 30 days AED '000</i>	<i>31 -60 days AED '000</i>	<i>61 -90 days AED '000</i>	<i>More than 90 days AED '000</i>	<i>Total AED '000</i>
2011					
Murabaha and other Islamic financing	42,264	16,195	17,203	144,836	220,498
Ijara financing	<u>51,566</u>	<u>38,214</u>	<u>17,066</u>	<u>1,331,339</u>	<u>1,438,185</u>
	<u>93,830</u>	<u>54,409</u>	<u>34,269</u>	<u>1,476,175</u>	<u>1,658,683</u>
2010					
Murabaha and other Islamic financing	7,671	5,959	3,698	860,230	877,558
Ijara financing	<u>17,614</u>	<u>24,219</u>	<u>52,892</u>	<u>1,030,555</u>	<u>1,125,280</u>
	<u>25,285</u>	<u>30,178</u>	<u>56,590</u>	<u>1,890,785</u>	<u>2,002,838</u>

More detailed information in respect of the allowance for impairment losses on murabaha and other islamic financing and ijara financing have been disclosed in notes 18 and 19 respectively.

43.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of scenarios, given due consideration to stress factors relating to both the market in general and specifically to the Bank.

The high quality of the asset portfolio ensure its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.1 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or when financing are provided to customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

43.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at reporting date based on contractual maturities.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2011					
ASSETS					
Cash and balances with central banks	6,647,445	4,559,700	-	-	11,207,145
Balances and wakala deposits with Islamic banks and other financial institutions	2,331,413	183,958	-	-	2,515,371
Murabaha and mudaraba with financial institutions	3,952,980	208,846	819,683	234,992	5,216,501
Murabaha and other Islamic financing	3,877,328	4,476,853	11,544,136	3,467,242	23,365,559
Ijara financing	1,693,387	2,947,464	12,582,135	8,242,796	25,465,782
Investments	848,985	73,827	729,793	-	1,652,605
Investment in associates	-	-	-	851,503	851,503
Other assets	<u>66,574</u>	<u>227,625</u>	<u>105,642</u>	<u>5,649</u>	<u>405,490</u>
Financial assets	<u>19,418,112</u>	<u>12,678,273</u>	<u>25,781,389</u>	<u>12,802,182</u>	70,679,956
Non-financial assets					<u>3,655,110</u>
Total assets					<u>74,335,066</u>
LIABILITIES					
Due to financial institutions	1,542,202	389,224	-	-	1,931,426
Depositors' accounts	50,285,426	4,411,403	473,454	1,500	55,171,783
Other liabilities	827,788	588,768	446,201	-	1,862,757
Tier 2 Wakala capital	-	-	2,207,408	-	2,207,408
Sukuk financing instruments	<u>-</u>	<u>-</u>	<u>4,590,625</u>	<u>-</u>	<u>4,590,625</u>
Total liabilities	<u>52,655,416</u>	<u>5,389,395</u>	<u>7,717,688</u>	<u>1,500</u>	<u>65,763,999</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2010					
ASSETS					
Cash and balances with central banks	4,500,246	900,089	-	-	5,400,335
Balances and wakala deposits with Islamic banks and other financial institutions	2,652,442	253,940	-	-	2,906,382
Murabaha and mudaraba with financial institutions	9,304,138	3,324,334	82,974	112,096	12,823,542
Murabaha and other Islamic financing	2,994,160	3,763,028	11,296,464	4,628,869	22,682,521
Ijara financing	1,760,939	3,460,654	13,018,088	7,030,390	25,270,071
Investments	337,198	152,631	1,149,585	-	1,639,414
Investment in associates	-	-	-	837,195	837,195
Other assets	<u>222,391</u>	<u>183,625</u>	<u>31,243</u>	<u>4,562</u>	<u>441,821</u>
Financial assets	<u>21,771,514</u>	<u>12,038,301</u>	<u>25,578,354</u>	<u>12,613,112</u>	72,001,281
Non-financial assets					<u>3,256,237</u>
Total assets					<u>75,257,518</u>
LIABILITIES					
Due to financial institutions	500,923	390,467	-	-	891,390
Depositors' accounts	51,860,160	4,433,656	221,729	1,500	56,517,045
Other liabilities	978,111	665,294	448,095	-	2,091,500
Tier 2 Wakala capital	-	-	-	2,207,408	2,207,408
Sukuk financing instruments	<u>-</u>	<u>2,938,000</u>	<u>2,501,523</u>	<u>-</u>	<u>5,439,523</u>
Total liabilities	<u>53,339,194</u>	<u>8,427,417</u>	<u>3,171,347</u>	<u>2,208,908</u>	<u>67,146,866</u>

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and profit payable to maturity.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2011					
LIABILITIES					
Due to financial institutions	1,542,955	390,035	-	-	1,932,990
Depositors' accounts	50,320,410	4,445,331	486,957	1,957	55,254,655
Other liabilities	827,788	588,768	446,201	-	1,862,757
Tier 2 Wakala capital	-	-	2,764,779	-	2,764,779
Sukuk financing instruments	<u>-</u>	<u>-</u>	<u>5,336,098</u>	<u>-</u>	<u>5,336,098</u>
Total liabilities	<u>52,691,153</u>	<u>5,424,134</u>	<u>9,034,035</u>	<u>1,957</u>	<u>67,151,279</u>
31 December 2010					
LIABILITIES					
Due to financial institutions	500,973	390,754	-	-	891,727
Depositors' accounts	51,906,626	4,510,188	232,014	2,002	56,650,830
Other liabilities	978,111	665,294	448,095	-	2,091,500
Tier 2 Wakala capital	-	-	-	2,853,075	2,853,075
Sukuk financing instruments	<u>-</u>	<u>2,958,042</u>	<u>3,459,478</u>	<u>-</u>	<u>6,417,520</u>
Total liabilities	<u>53,385,710</u>	<u>8,524,278</u>	<u>4,139,587</u>	<u>2,855,077</u>	<u>68,904,652</u>

The disclosed financial instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

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31 December 2011

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
2011					
Contingent liabilities	8,605,755	2,082,969	417,300	3,146	11,109,170
Commitments	<u>62,585</u>	<u>152,789</u>	<u>1,760,519</u>	<u>-</u>	<u>1,975,893</u>
Total	<u>8,668,340</u>	<u>2,235,758</u>	<u>2,177,819</u>	<u>3,146</u>	<u>13,085,063</u>
2010					
Contingent liabilities	4,688,822	1,680,027	1,886,109	-	8,254,958
Commitments	<u>412,810</u>	<u>821,035</u>	<u>619,843</u>	<u>-</u>	<u>1,853,688</u>
Total	<u>5,101,632</u>	<u>2,501,062</u>	<u>2,505,952</u>	<u>-</u>	<u>10,108,646</u>

The Bank does not expect that all of the contingent liabilities or commitments will be drawn before expiry.

43.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limit to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management.
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary instrument is the rate that, when used in present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating instrument or an instrument carried at fair value.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

	<i>Increase in basis points 2011</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>	<i>Increase in basis points 2010</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>
Currency				
AED	50	71,487	50	80,657
USD	50	(28,050)	50	(6,021)
Euro	50	516	50	825
Other currencies	50	936	50	559

43.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Group was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on investments carried at fair value through other comprehensive income (previously: available-for-sale investments) equity instruments and investment in associates.

	<i>% Increase currency rates</i>	<i>Effect on net profit AED '000</i>	<i>Effect on equity AED '000</i>
31 December 2011			
Currency			
USD	5	(116,547)	8,212
Euro	5	(3,216)	1,821
Other currencies	5	8,015	35,154
31 December 2010			
Currency			
USD	5	(67,414)	33,648
Euro	5	(1,899)	1,620
Other currencies	5	5,707	37,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk

The table below shows the Group's exposure to foreign currencies.

	<i>AED</i> <i>AED '000</i>	<i>USD</i> <i>AED '000</i>	<i>Euro</i> <i>AED '000</i>	<i>GBP</i> <i>AED '000</i>	<i>Others</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2011						
Assets						
Cash and balances with central banks	10,926,829	279,875	170	27	244	11,207,145
Balances and wakala deposits with Islamic banks and other financial institutions	1,504,400	957,325	32,746	2,764	18,136	2,515,371
Murabaha and mudaraba with financial institutions	1,500,731	2,678,306	652,644	215,069	169,751	5,216,501
Murabaha and other Islamic financing	20,920,206	2,357,697	86,840	815	1	23,365,559
Ijara financing	21,642,791	3,810,527	-	-	12,464	25,465,782
Investments	734,923	899,591	102	-	17,989	1,652,605
Investment in associates	127,633	-	36,312	-	687,558	851,503
Other assets	<u>(916,834)</u>	<u>1,347,538</u>	<u>1,740</u>	<u>-</u>	<u>(26,954)</u>	<u>405,490</u>
	<u>56,440,679</u>	<u>12,330,859</u>	<u>810,554</u>	<u>218,675</u>	<u>879,189</u>	<u>70,679,956</u>
Liabilities						
Due to financial institutions	858,091	466,696	411,827	182,582	12,230	1,931,426
Depositors' accounts	45,630,631	9,146,904	355,754	35,153	3,341	55,171,783
Other liabilities	1,497,372	293,334	70,882	189	980	1,862,757
Tier 2 wakala capital	2,207,408	-	-	-	-	2,207,408
Sukuk financing instruments	-	<u>4,590,625</u>	-	-	-	<u>4,590,625</u>
	<u>50,193,502</u>	<u>14,497,559</u>	<u>838,463</u>	<u>217,924</u>	<u>16,551</u>	<u>65,763,999</u>
31 December 2010						
Assets						
Cash and balances with central banks	5,183,368	216,887	30	2	48	5,400,335
Balances and wakala deposits with Islamic banks and other financial institutions	1,754,931	1,111,158	31,028	2,969	6,296	2,906,382
Murabaha and mudaraba with financial institutions	4,758,756	7,574,750	167,361	210,579	112,096	12,823,542
Murabaha and other Islamic financing	21,038,194	1,552,740	88,719	2,868	-	22,682,521
Ijara financing	21,400,362	3,815,838	-	-	53,871	25,270,071
Investments	585,263	993,695	104	-	60,352	1,639,414
Investment in associates	117,337	-	32,300	-	687,558	837,195
Other assets	<u>219,208</u>	<u>201,413</u>	<u>20,370</u>	<u>-</u>	<u>830</u>	<u>441,821</u>
	<u>55,057,419</u>	<u>15,466,481</u>	<u>339,912</u>	<u>216,418</u>	<u>921,051</u>	<u>72,001,281</u>
Liabilities						
Due to financial institutions	109,859	490,350	56,065	179,937	55,179	891,390
Depositors' accounts	46,347,084	9,901,370	233,890	32,780	1,921	56,517,045
Other liabilities	1,691,900	310,562	88,939	51	48	2,091,500
Tier 2 wakala capital	2,207,408	-	-	-	-	2,207,408
Sukuk financing instruments	-	<u>5,439,523</u>	-	-	-	<u>5,439,523</u>
	<u>50,356,251</u>	<u>16,141,805</u>	<u>378,894</u>	<u>212,768</u>	<u>57,148</u>	<u>67,146,866</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's quoted investments in the investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Bank's consolidated income statement. Sensitivity is the effect of the assumed change in the reference equity benchmark in the fair value of investments carried at fair value through profit and loss on the consolidated income statement,

	<i>% Increase in market indices 2011</i>	<i>Effect on net profit AED '000</i>
<i>Investments carried at fair value through profit and loss</i>		
Dubai Financial Market	10	262

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

	<i>% Increase in market indices 2011</i>	<i>Effect on equity AED '000</i>
<i>Investments carried at fair value through other comprehensive income</i>		
Others	10	1,553

	<i>% Increase in market indices 2010</i>	<i>Effect on net profit AED '000</i>	<i>Effect on equity AED '000</i>
<i>Held for trading investments</i>			
Abu Dhabi Exchange	10	182	-
Dubai Financial Market	10	510	-
<i>Available-for-sale investments</i>			
Others	10	-	5,789

43.4.4 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or system.

The Bank is developing and implementing a detailed operational risk framework in accordance with Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units across different functions of the Bank involved in performing various operational risk management tasks. The Operational Risk Management Framework ensures that operational risks within the Bank are properly identified, monitored, reported and actively managed. Key elements of the framework include process mapping, management of an operational loss database, key risk indicators, regular business unit level self assessment, risk analysis and risk management reporting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.4 Operational risk continued

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operational risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being actively identified, monitored and managed within their respective business units. The day-to-day operational risk is managed also through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedures to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning, which is regularly assessed and tested.

43.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Central Bank of the UAE vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2010: 12%) at all times in which Tier 1 capital should not be less than 8% (2010: 8%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, retained earnings, translation reserve and non-controlling interest after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as investments carried at fair value through other comprehensive income (previously: the fair value reserve relating to unrealised gains and losses on financial instruments classified as available-for-sale investments), gains or losses arising on translation of foreign operations and unrealised gains or losses arising on Sharia'a compliant financial instruments designated as cashflow hedges.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or to adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The Central Bank of the U.A.E vide its notice 27/2009 dated 17 November 2009, requires all the banks operating in the U.A.E. to implement Standardised approach of Basel II. For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2011.

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31 December 2011

43 RISK MANAGEMENT continued

43.5 Capital management continued

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2011 and 2010. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	<i>Basel II</i>	
	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
<i>Tier 1 capital</i>		
Share capital	2,364,706	2,364,706
Legal reserve	1,755,894	1,754,899
General reserve	585,921	443,182
Retained earnings	1,311,406	984,069
Proposed dividends	577,546	511,783
Proposed dividends to charity	1,028	6,816
Tier 1 sukuk	2,000,000	2,000,000
Non-controlling interest	<u>2,609</u>	<u>3,075</u>
Total	<u>8,599,110</u>	<u>8,068,530</u>
<i>Tier 2 capital</i>		
Tier 2 wakala capital	2,207,408	2,207,408
Cumulative changes in fair value	(171,043)	(92,040)
Collective impairment provision for financing assets	<u>757,312</u>	<u>575,344</u>
Total	<u>2,793,677</u>	<u>2,690,712</u>
Total tier 1 and tier 2 capital	11,392,787	10,759,242
Deductions for Tier 1 and Tier 2 capital	<u>(851,503)</u>	<u>(837,195)</u>
Total capital base	<u>10,541,284</u>	<u>9,922,047</u>
<i>Risk weighted assets</i>		
Credit risk	56,137,854	58,320,901
Market risk	1,240,708	1,008,157
Operational risk	<u>3,247,006</u>	<u>2,565,177</u>
Total risk weighted assets	<u>60,625,568</u>	<u>61,894,235</u>
<i>Capital ratios</i>		
Total regulatory capital expressed as a percentage of total risk weighted assets	<u>17.39%</u>	<u>16.03%</u>
Tier 1 capital expressed as a percentage of total risk weighted assets	<u>14.18%</u>	<u>13.04%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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44 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value

Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income (previously: available-for-sale investments), the impact of change in fair valuation from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

Unquoted investments – at fair value

The consolidated financial statements include investments in unquoted funds and private equities which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment in associates (note 21) and available-for-sale investments that are carried at cost (note 20)), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

Fair value of investments - at amortised cost

	<i>Carrying amount AED '000</i>	<i>Fair value AED '000</i>
31 December 2011		
Amortised cost investments - sukuk (as per IFRS 9 (note 20))	<u>440,409</u>	<u>421,525</u>
31 December 2010		
Held to maturity investments - sukuk (as per IAS 39 (note 20))	<u>135,450</u>	<u>141,971</u>

Fair value measurement recognized in the consolidated statement of financial position

The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	<i>Level 1</i> <i>AED '000</i>	<i>Level 2</i> <i>AED '000</i>	<i>Level 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2011				
Financial assets				
<i>Investments carried at fair value through profit and loss</i>				
Equities	2,625	-	-	2,625
Sukuk	<u>846,361</u>	<u>-</u>	<u>-</u>	<u>846,361</u>
	<u>848,986</u>	<u>-</u>	<u>-</u>	<u>848,986</u>
<i>Investments carried at fair value through other comprehensive income</i>				
<i>Quoted investments</i>				
Equities	<u>16,454</u>	<u>-</u>	<u>-</u>	<u>16,454</u>
<i>Unquoted investments</i>				
Funds	-	-	174,723	174,723
Private equities	<u>-</u>	<u>-</u>	<u>172,033</u>	<u>172,033</u>
	<u>-</u>	<u>-</u>	<u>346,756</u>	<u>346,756</u>
	<u>16,454</u>	<u>-</u>	<u>346,756</u>	<u>363,210</u>
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	<u>-</u>	<u>19,578</u>	<u>-</u>	<u>19,578</u>
31 December 2010				
Financial assets				
<i>Held for trading investments (as per IAS 39)</i>				
Equities	6,920	-	-	6,920
Sukuk	<u>329,353</u>	<u>-</u>	<u>-</u>	<u>329,353</u>
	<u>336,273</u>	<u>-</u>	<u>-</u>	<u>336,273</u>
<i>Available-for-sale investments (as per IAS 39)</i>				
<i>Quoted investments</i>				
Equities	58,817	-	-	58,817
Sukuk	<u>604,280</u>	<u>-</u>	<u>-</u>	<u>604,280</u>
	<u>663,097</u>	<u>-</u>	<u>-</u>	<u>663,097</u>
<i>Unquoted investments</i>				
Funds	-	-	140,110	140,110
Private equities	<u>-</u>	<u>-</u>	<u>276,549</u>	<u>276,549</u>
	<u>-</u>	<u>-</u>	<u>416,659</u>	<u>416,659</u>
	<u>999,370</u>	<u>-</u>	<u>416,659</u>	<u>1,416,029</u>
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	<u>-</u>	<u>8,642</u>	<u>-</u>	<u>8,642</u>

There were no transfers between level 1, 2 and 3 during the current year and in the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
At 1 January	416,659	393,575
Transition adjustment on adoption of IFRS 9	27,493	-
Net (disposals) purchases	(32,221)	73,149
Impairment loss on available-for-sale investments	-	(23,081)
Losses recorded in equity	<u>(65,175)</u>	<u>(26,984)</u>
At 31 December	<u>346,756</u>	<u>416,659</u>

45 SUBSEQUENT EVENT

On 9 January 2012, the Bank acquired an installment house in the Kingdom of Saudi Arabia for a total cash consideration of SAR 56,000 thousand (AED 54,846 thousand). This acquisition has been approved by the Saudi Arabia regulatory authorities. The acquisition provides opportunities for the Bank to grow its business and create one of the affluent businesses in the Kingdom of Saudi Arabia.

46 COMPARATIVE INFORMATION

Following comparatives were reclassified to conform to the current period presentation. The reclassification has no effect on the previously reported profit or equity of the Group:

An amount of AED 89,522 thousand has been re-classified from “distribution to investment accounts by financial institutions” and has been included in “distribution to sukuk holders and Tier 2 wakala capital” in note 13 to the consolidated financial statements.