ABU DHABI COMMERCIAL BANK P.J.S.C.

Report and consolidated financial statements for the year ended December 31, 2012

The audited financial statements are subject to adoption by Shareholders at the Annual General Meeting.

ABU DHABI COMMERCIAL BANK P.J.S.C.

Report and consolidated financial statements for the year ended December 31, 2012

pwc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi, U.A.E.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C. ("the Bank") and its subsidiaries (together referred to as "the Group") which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and 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 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 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.

PricewaterhouseCoopers, Abu Dhabi Trade Centre, Level 9, East Tower, PO Box 45263, Abu Dhabi, United Arab Emirates
T: +971 (0)2 694 6800, F: +971 (0)2 645 6610, www.pwc.com/middle-east

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2012 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

Further, in respect of the Bank, as required by the UAE Federal Law No. (8) of 1984, as amended, we report that we have obtained all the information we considered necessary for the purposes of our audit, the financial statements of the Bank comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and its Articles of Association, the Bank has maintained proper books of account and the financial statements are in agreement therewith, and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as of December 31, 2012.

For PricewaterhouseCoopers
30 January 2013

Jacques E. Fakhoury
Registered Auditor Number 379
Abu Dhabi, United Arab Emirates

Consolidated statement of financial position as at December 31, 2012

	Notes	2012 AED'000	2011 AED'000	2012 USD'000
ASSETS				
Cash and balances with Central Banks	5	9,337,874	6,629,945	2,542,302
Deposits and balances due from banks	6	16,517,118	20,839,932	4,496,901
Trading securities	7	641,877	15,755	174,755
Derivative financial instruments	8	4,993,226	4,844,764	1,359,441
Investment securities	9	18,712,916	15,052,103	5,094,723
Loans and advances, net	10	123,195,295	124,754,737	33,540,783
Investment in associates	11	-	81,817	-
Investment properties	12	529,395	396,912	144,131
Other assets	13	5,925,962	10,021,494	1,613,385
Property and equipment, net	14	849,934	964,518	231,400
Intangible assets	15	92,126	123,653	25,082
Total assets		180,795,723	183,725,630	49,222,903
LIABILITIES				
Due to Central Banks		-	48,100	-
Due to banks	16	4,411,271	3,090,386	1,200,999
Derivative financial instruments	8	4,768,338	4,821,568	1,298,213
Deposits from customers	17	109,216,925	109,170,825	29,735,074
Euro commercial paper	18	4,557,108	716,652	1,240,705
Borrowings	19	26,139,647	31,897,009	7,116,702
Other liabilities	20	6,994,845	11,903,567	1,904,396
Total liabilities		156,088,134	161,648,107	42,496,089
EQUITY				
Share capital	21	5,595,597	5,595,597	1,523,440
Share premium	21	3,848,286	3,848,286	1,047,723
Other reserves	22	6,288,591	4,919,896	1,712,113
Retained earnings		4,537,315	3,708,227	1,235,316
Capital notes	25	4,000,000	4,000,000	1,089,028
Equity attributable to equity holders of the Bank		24,269,789	22,072,006	6,607,620
Non-controlling interests		437,800	5,517	119,194
Total equity		24,707,589	22,077,523	6,726,814
Total liabilities and equity		180,795,723	183,725,630	49,222,903

These consolidated financial statements were approved by the Board of Directors and authorized for issue on January 30, 2013.

Eissa Al Suwaidi **Chairman**	**Ala'a Eraiqat** **Chief Executive Officer**	**Deepak Khullar** **Chief Financial Officer**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated income statement
for the year ended December 31, 2012

	Notes	2012 AED'000	2011 AED'000	2012 USD'000
Interest income	26	**7,469,680**	7,347,673	**2,033,672**
Interest expense	27	**(2,356,370)**	(2,805,554)	**(641,538)**
Net interest income		**5,113,310**	4,542,119	**1,392,134**
Income from Islamic financing	23	**354,045**	351,073	**96,391**
Islamic profit distribution	23	**(260,124)**	(211,093)	**(70,820)**
Net income from Islamic financing		**93,921**	139,980	**25,571**
Total net interest and Islamic financing income		**5,207,231**	4,682,099	**1,417,705**
Net fees and commission income	28	**940,035**	898,157	**255,931**
Net trading income	29	**302,686**	334,769	**82,408**
Decrease in fair value of investment properties	12	**(28,836)**	(11,900)	**(7,850)**
Other operating income	30	**174,032**	166,287	**47,381**
Operating income		**6,595,148**	6,069,412	**1,795,575**
Operating expenses	31	**(2,069,264)**	(2,063,225)	**(563,371)**
Operating profit before impairment allowances		**4,525,884**	4,006,187	**1,232,204**
Impairment allowances	32	**(1,709,719)**	(2,397,828)	**(465,483)**
Share of profit of associates	11	**-**	158,658	**-**
Net gain on sale of investment in associate	11	**-**	1,314,315	**-**
Profit before taxation		**2,816,165**	3,081,332	**766,721**
Overseas income tax expense		**(5,830)**	(36,221)	**(1,588)**
Net profit for the year		**2,810,335**	3,045,111	**765,133**
Attributed to:				
Equity holders of the Bank		**2,735,810**	3,025,865	**744,843**
Non-controlling interests		**74,525**	19,246	**20,290**
Net profit for the year		**2,810,335**	3,045,111	**765,133**
Basic earnings per share (AED/USD)	33	**0.45**	0.51	**0.12**
Diluted earnings per share (AED/USD)	33	**0.45**	0.50	**0.12**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended December 31, 2012

	2012 AED'000	2011 AED'000	**2012 USD'000**
Net profit for the year	**2,810,335**	3,045,111	**765,133**
Items that may be reclassified subsequently to income statement:			
Exchange difference arising on translation of foreign operations	**(6,812)**	40,196	**(1,854)**
Fair value changes on cash flow hedges on financial assets	**29,337**	(2,581)	**7,987**
Fair value changes on net investment in foreign operation hedges	**-**	(66,561)	**-**
Fair value changes on available for sale investments	**824,569**	(559,061)	**224,495**
Fair value changes reversed on disposal/impairment of available for sale investments	**(2,963)**	52,785	**(807)**
Share in other comprehensive income of associate	**-**	(19,098)	**-**
Reversal of related reserve balances on disposal of associate (Note 11)	**-**	399,309	**-**
Reversal of share in other comprehensive income of associate on disposal of associate (Note 11)	**-**	(59,050)	**-**
Other comprehensive income/(loss)	**844,131**	(214,061)	**229, 821**
Total comprehensive income for the year	**3,654,466**	2,831,050	**994,954**
Attributed to:			
Equity holders of the Bank	**3,579,941**	2,811,804	**974,664**
Non-controlling interests	**74,525**	19,246	**20,290**
Total comprehensive income for the year	**3,654,466**	2,831,050	**994,954**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended December 31, 2012

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital Notes AED'000	Equity attributable to equity holders of the parent AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at January 1, 2012	**5,595,597**	**3,848,286**	**4,919,896**	**3,708,227**	**4,000,000**	**22,072,006**	**5,517**	**22,077,523**
Net profit for the year	**-**	**-**	**-**	**2,735,810**	**-**	**2,735,810**	**74,525**	**2,810,335**
Other comprehensive income for the year	**-**	**-**	**844,131**	**-**	**-**	**844,131**	**-**	**844,131**
Arising on consolidation of fund subsidiaries (Note 3.1)	**-**	**-**	**-**	**-**	**-**	**-**	**397,565**	**397,565**
Dividends paid to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**(5,517)**	**(5,517)**
Dividends paid to equity holders of the parent (Note 21)	**-**	**-**	**-**	**(1,119,119)**	**-**	**(1,119,119)**	**-**	**(1,119,119)**
Other movements (Note 22)	**-**	**-**	**524,564**	**(547,162)**	**-**	**(22,598)**	**-**	**(22,598)**
Net decrease in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**(34,290)**	**(34,290)**
Dividend reversed on treasury shares (Note 3.1)	**-**	**-**	**-**	**842**	**-**	**842**	**-**	**842**
Unrealised gain, net on treasury shares (Note 3.1)	**-**	**-**	**-**	**(1,283)**	**-**	**(1,283)**	**-**	**(1,283)**
Capital notes coupon paid (Note 33)	**-**	**-**	**-**	**(240,000)**	**-**	**(240,000)**	**-**	**(240,000)**
Balance at December 31, 2012	**5,595,597**	**3,848,286**	**6,288,591**	**4,537,315**	**4,000,000**	**24,269,789**	**437,800**	**24,707,589**

For the year ended December 31, 2012, the Board of Directors has proposed to pay cash dividends representing 25% of the paid up capital (Note 21).

Consolidated statement of changes in equity
for the year ended December 31, 2012 (continued)

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital Notes AED'000	Mandatory convertible securities - equity component AED'000	Equity attributable to equity holders of the parent AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at January 1, 2011	4,810,000	-	4,596,703	1,524,201	4,000,000	4,633,883	19,564,787	8,561	19,573,348
Net profit for the year	-	-	-	3,025,865	-	-	3,025,865	19,246	3,045,111
Other comprehensive loss for the year	-	-	(214,061)	-	-	-	(214,061)	-	(214,061)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(22,290)	(22,290)
Shares issued on conversion of MCS (Note 21)	785,597	3,848,286	-	-	-	(4,633,883)	-	-	-
Other movements (Note 22)	-	-	537,254	(605,172)	-	-	(67,918)	-	(67,918)
Capital notes coupon paid (Note 33)	-	-	-	(236,667)	-	-	(236,667)	-	(236,667)
Balance at December 31, 2011	5,595,597	3,848,286	4,919,896	3,708,227	4,000,000	-	22,072,006	5,517	22,077,523

Consolidated statement of cash flows
for the year ended December 31, 2012

	2012 AED'000	2011 AED'000	2012 USD'000
OPERATING ACTIVITIES			
Profit before taxation and non-controlling interests	**2,816,165**	3,081,332	**766,721**
Adjustments for:			
Depreciation (Note 14)	**131,286**	149,348	**35,744**
Amortisation of intangible assets (Note 15)	**31,527**	31,527	**8,583**
Dividends income (Note 30)	**(25,043)**	(8,879)	**(6,818)**
Decrease in fair value of investment property (Note 12)	**28,836**	11,900	**7,851**
Impairment allowance on loans and advances (Note 41.9)	**1,874,123**	2,303,106	**510,243**
Recovery of doubtful loans and advances (Note 41.9)	**(183,015)**	(220,746)	**(49,827)**
Discount unwind (Note 41.9)	**(129,920)**	(177,216)	**(35,372)**
Loss on credit default swaps (Note 32)	**-**	204,438	**-**
(Recovery)/impairment allowance on investment securities (Note 32)	**(2,726)**	53,590	**(742)**
Impairment allowance on property and equipment, net (Note 14)	**21,337**	57,440	**5,809**
Net loss/(gain) from available for sale investments (Note 30)	**4,224**	(6,852)	**1,150**
Net gain from trading securities (Note 29)	**(104,018)**	(29,482)	**(28,320)**
Share of profit of associates, net	**-**	(158,658)	**-**
Imputed interest on mandatory convertible securities	**-**	(29,131)	**-**
Net gain on sale of investment in associate (Note 11)	**-**	(1,314,315)	**-**
Ineffective portion of hedges – (gain)/losses (Note 8)	**(22,559)**	5,673	**(6,142)**
Board of directors' remuneration	**5,375**	5,584	**1,463**
Employees' incentive plan benefit expense (Note 24)	**48,339**	32,882	**13,161**
Operating profit before changes in operating assets and liabilities	**4,493,931**	3,991,541	**1,223,504**
Increase in balance with Central Bank	**(1,500,000)**	(750,000)	**(408,385)**
Decrease in due from banks	**4,430,974**	453,360	**1,206,364**
Decrease in net trading derivative financial instruments	**1,216**	76,493	**331**
Increase in loans and advances	**(10,215)**	(3,888,011)	**(2,781)**
Decrease in other assets	**23,206**	453,947	**6,318**
Decrease in due to banks	**(108,820)**	(2,034,819)	**(29,627)**
Increase in deposits from customers	**19,836**	4,204,202	**5,400**
Decrease in other liabilities	**(876,006)**	(886,812)	**(238,499)**
Cash from operations	**6,474,122**	1,619,901	**1,762,625**
Board of Directors' remuneration paid	**(10,750)**	(5,250)	**(2,927)**
Overseas tax paid	**(8,221)**	-	**(2,238)**
Net cash from operations	**6,455,151**	1,614,651	**1,757,460**
INVESTING ACTIVITIES			
Net proceeds from disposal of associate	**-**	7,111,817	**-**
Dividends received from associate	**-**	36,697	**-**
Dividends income	**25,043**	8,879	**6,818**
Recovery of investment securities written off	**12,669**	-	**3,449**
Overseas tax refund, net	**39,624**	-	**10,788**
Gain on sale of investment	**-**	36,334	**-**
Net purchase of trading securities	**(43,388)**	(15,755)	**(11,813)**
Net proceeds from disposal of available for sale investment securities	**1,408,955**	622,487	**383,598**
Net purchase of available for sale securities	**(4,332,960)**	(7,504,405)	**(1,179,679)**
Additions to investment properties	**(85,625)**	(100,985)	**(23,312)**
Purchase of property and equipment, net	**(113,733)**	(119,620)	**(30,964)**
Net cash (used in)/from investing activities	**(3,089,415)**	75,449	**(841,115)**

Consolidated statement of cash flows
for the year ended December 31, 2012 (continued)

	2012 AED'000	2011 AED'000	**2012 USD'000**
FINANCING ACTIVITIES			
Increase/ (decrease) in Euro commercial paper	**3,742,432**	(242,173)	**1,018,903**
Net (repayment of) / increase in borrowings	**(5,758,213)**	1,497,179	**(1,567,714)**
Dividends paid to non-controlling interests	**(5,517)**	(22,290)	**(1,502)**
Dividends paid to equity holders of the parent	**(1,119,119)**	-	**(304,688)**
Net proceeds from sale of treasury shares by Funds subsidiaries (Note 3.1)	**9,119**	-	**2,483**
Net movement in non-controlling interests	**(36,599)**	-	**(9,964)**
Dividend received on treasury shares (Note 3.1)	**842**	-	**229**
Capital notes coupon paid	**(240,000)**	(236,667)	**(65,342)**
Purchase of employees' incentive plan shares	**(40,000)**	(100,800)	**(10,890)**
Net cash (used in)/ generated from financing activities	**(3,447,055)**	895,249	**(938,485)**
Net (decrease)/increase in cash and cash equivalents	**(81,319)**	2,585,349	**(22,140)**
Cash and cash equivalents at the beginning of the year	**19,261,633**	16,676,284	**5,244,115**
Cash and cash equivalents at the end of the year (Note 35)	**19,180,314**	19,261,633	**5,221,975**

There is no impact on cash flows on initial consolidation of the three funds as the transfers were made without any exchange of consideration (Note 3.1).

The accompanying notes are an integral part of these consolidated financial statements.

1 Activities and areas of operations

Abu Dhabi Commercial Bank P.J.S.C. ("ADCB" or the "Bank") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (U.A.E.). ADCB is principally engaged in the business of retail banking, commercial banking and Islamic banking and provision of other financial services through its network of fifty branches and four pay offices in the U.A.E., two branches in India, one offshore branch in Jersey and its subsidiaries and associates.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Salam Street, plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, U.A.E.

ADCB is registered as a public joint stock company in accordance with the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended).

2 Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs effective for accounting periods beginning January 1, 2012

There are no IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning January 1, 2012 that have had a material impact on Bank's consolidated financial statements.

2.2 Standards and Interpretations in issue not yet effective

Except as indicated below, the Bank has not early adopted new and revised IFRSs that have been issued but are not yet effective.

New Standards and amendments to Standards:	**Effective for annual periods beginning on or after**
The amendments to IFRS 7, Financial Instruments: Disclosures – The amendment to IFRS 7 introduces disclosure requirements for financial assets and liabilities that are offset in statement of financial position or are subject to master netting arrangements or similar agreements.	January 1, 2013
Amendments to IAS 19, Employee Benefits — Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects, requiring recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, with all actuarial gains and losses recognized immediately through other comprehensive income.	January 1, 2013

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 Standards and Interpretations in issue not yet effective (continued)

New Standards and amendments to Standards:	**Effective for annual periods beginning on or after**
The amendments to IAS 32 , Financial Instruments: Presentation – The amendments clarify the offsetting criteria in IAS 32 to address inconsistencies in their application. An entity will have a legally enforceable right to set off only if it is non-contingent in nature and is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy	January 1, 2014
IFRS 13, Fair Value measurement - represents the completion of the joint project to establish a single source for the requirements on how to measure fair value under IFRS. The Standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and improving disclosure requirements for use across IFRSs. It applies to both financial instruments and non-financial instruments. In general, disclosure requirements will be more extensive.	January 1, 2013
Annual Improvements 2009-2011 Cycle made amendments to the following standards:	
- IFRS 1 — Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets, requiring an entity to measure government loans with a below market rate of interest at fair value on initial recognition - IAS 1 — Clarification of the requirements for comparative information - IAS 16 — Classification of servicing equipment - IAS 32 — Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes - IAS 34 — Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments	January 1, 2013
IFRS 9, Financial Instruments: Classification and Measurement (intended as complete replacement for IAS 39)	January 1, 2015

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 Standards and Interpretations in issue not yet effective (continued)

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

Management anticipates that these IFRSs and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The Bank is yet to assess IFRS 9's full impact, particularly as the hedging and impairment aspects of IFRS 9 are still outstanding, and intends to adopt IFRS 9 in the initial period when it becomes mandatorily effective.

Early adoption of standards

Effective 1 January 2013, IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. Under IFRS 10, the only basis for consolidation is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. A detailed review has been carried out on the Bank's connected entities in light of the new definitions and guidance in IFRS 10. The Bank has determined based on the results of this review that it will need to consolidate several funds where it has an investment as well as where it manages the fund. The impact of the change is dealt with in Note 3.1 below.

3 Summary of significant accounting policies

3.1 Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated October 12, 2008, the Bank's exposure in cash and balances with Central Banks, deposits and balances due from banks, trading and investment securities outside the U.A.E. have been presented under the respective notes.

Certain items have been reclassified, consolidated and rearranged from the Bank's prior year financial statements to conform to the current year's presentation and improve the transparency of certain line items of the consolidated statement of financial position, consolidated income statement and consolidated statement of changes in equity and the notes to the accounts.

Change in accounting policy

The Bank has early adopted IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as well as the consequential amendments to IAS 28 Investments in Associates and Joint Ventures (2011), with a date of initial application of January 1, 2012.

Subsidiaries

As a result of the adoption of IFRS 10, the Bank has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Bank controls the investee on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10, the Bank re-assessed the control conclusion for its investees at 1 January 2012. As a consequence, the Bank has changed its control conclusion in respect of its investments in Al Nokhitha Fund, ADCB MSCI UAE Index Fund and Arabian Index Fund (the "Funds").

Although the Bank owns less than half of the units of these Funds, the management has determined that the Bank has de facto control over the Funds because it is exposed to significant variable returns from its involvement with the Funds and has power and rights given by the prospectus of the Funds to affect the amount of its returns. Accordingly, the Bank applied acquisition accounting to the investment at 1 January 2012, as if the investee had been consolidated from that date. Previously, two of the investments in the Funds were accounted for as associates using the equity method and one of the investments was accounted for as an available for sale investment using fair value accounting.

The following table summarises the adjustments made to the Bank's relevant line items of statements of financial position as at January 1, 2012 and its income statement for the year ended December 31, 2011 as a result of the consolidation of the Funds. The transition rules of IFRS 10, on early adoption, permit the amendment of the current year's financial information without restating previous year's financial information.

3 Summary of significant accounting policies

3.1 Basis of preparation (continued)

Change in accounting policy (continued)

Statement of financial position (extract)

The impact of early adoption of IFRS 10 as at January 1, 2012 (adoption date) is as follows:

	As at December 31, 2012	January 1, 2012		
		As previously stated	Adjustments	As restated
	AED'000	AED'000	AED'000	AED'000
Assets				
Trading securities	641,877	15,755	478,716	494,471
Investment securities	18,712,916	15,052,103	(35,016)	15,017,087
Loans and advances, net	123,195,295	124,754,737	(8,469)	124,746,268
Other assets	5,925,962	10,021,494	(1,314)	10,020,180
Investment in associates	-	81,817	(81,817)	-
Overall impact on total assets			**352,100**	
Liabilities				
Deposits from customers	109,216,925	109,170,825	(6,060)	109,164,765
Other liabilities	6,994,845	11,903,567	(375)	11,903,192
Overall impact on total liabilities			**(6,435)**	
Equity				
Controlling interests				
Treasury shares	(30,937)	-	(39,030)	(39,030)
Non-controlling interests	437,800	5,517	397,565	403,082
Overall impact on equity			**358,535**	

Income statement

Had the adoption of IFRS 10 been applied to 2011, the impact is as stated below:

	Year ended December 31, 2012	Year ended December 31, 2011		
		As previously stated	Adjustments	As restated
	AED '000	AED'000	AED'000	AED'000
Net interest income	5,113,310	4,542,119	(1,342)	4,540,777
Net fees and commission income	940,035	898,157	(9,388)	888,769
Net trading income	302,686	334,769	(116,973)	217,796
Other operating income	174,032	166,287	18,578	184,865
Overall impact on operating income			**(109,125)**	
Operating expenses	(2,069,264)	(2,063,225)	(666)	(2,063,891)
Share of profit of associates	-	158,658	22,718	181,376
Overall impact on net profit			**(87,073)**	
Overall impact on net profit attributable to non-controlling interests			**(86,001)**	

Impact on Earnings per share (EPS)

There is no impact on EPS of 2011 due to consolidation of Funds.

3 Summary of significant accounting policies

3.1 Basis of preparation (continued)

Change in accounting policy (continued)

Joint arrangements

As a result of the adoption of IFRS 11, the Bank has changed its accounting policy with respect to interests in joint arrangements.

Under IFRS 11, the Bank classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Bank's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Bank considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Bank currently has no significant interests in joint arrangements; accordingly, early adoption of IFRS 11 has no impact on the recognised assets, liabilities and comprehensive income of the Bank.

3.2 Measurement

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets and liabilities (including derivatives) at fair value through profit and loss, available for sale financial assets and investment properties.

3.3 Functional and presentation currency

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Bank's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

The US Dollar (USD) amounts in the primary segment of the financial statements are presented for the convenience of the reader only by converting the AED balances at pegged exchange rate of 1 USD = 3.673 AED.

3.4 Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

3 Summary of significant accounting policies (continued)

3.5 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (collectively referred to as "ADCB or the "Bank") as set in Note 49.

Subsidiaries

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Special Purpose Entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank, the Bank's power over the SPE, exposures or rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to affect the amount of its return, the Bank concludes that it controls the SPE.

The assessment of whether the Bank has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE except whenever there is a change in the substance of the relationship between the Bank and an SPE.

Funds Management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity, as referred to above, or is the principal investor. Information about the Funds managed by the Bank is set out in Note 48.

Loss of control

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

Transactions eliminated on consolidation

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

3 Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Investments in associates

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Bank's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases.

When the Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

Joint arrangements

Joint arrangements are arrangements of which the Bank has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

Joint operation – when the Bank has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – when the Bank has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

3.6 Foreign currencies

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Bank are presented in AED, which is the Bank's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the statement of financial position date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognized in either the income statement or shareholders' equity depending upon the nature of the asset or liability.

3 Summary of significant accounting policies (continued)

3.6 Foreign currencies (continued)

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Bank's presentation currency at the rate of exchange ruling at the statement of financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign currency translation reserve' (Note 22).

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on a proportionate basis, except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, where the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement.

3.7 Financial instruments

(i) Date of recognition

All financial assets and liabilities are initially recognized on the date at which the Bank becomes a party to the contractual provision of the instrument except for "regular way" purchases and sales of financial assets which are recognized on settlement date basis (other than derivative contracts). Settlement date is the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated statement of financial position date is recognised in the consolidated income statement for assets classified as held for trading, in other comprehensive income for assets classified as available for sale and no adjustments are recognised for assets carried at cost or amortised cost.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value, plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Derivatives

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

(iii) Derivatives (continued)

Derivative financial instruments are initially measured at fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under net gain on dealing in derivatives.

(iv) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available for sale.

Investment securities are classified into the following categories depending on the nature and purpose of the investment:

i) Investments at fair value through profit or loss;
ii) Available for sale and
iii) Held-to-maturity investments.

Financial assets and liabilities designated at fair value through profit or loss (FVTPL)

Financial assets and liabilities are classified as at FVTPL when either held for trading or when designated as at FVTPL.

A financial asset or liability is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Financial assets and liabilities designated at fair value through profit or loss (FVTPL) (continued)

A financial asset or liability other than held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise for measuring assets or liabilities on a different basis; or
- It forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets and liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in consolidated income statement.

Held-to-maturity

Investments which have fixed or determinable payments with fixed maturities which the Bank has the positive intention and ability to hold to maturity, are classified as held to maturity investments.

Held-to-maturity investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognised on an effective yield basis.

Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

If there is objective evidence that an impairment on held to maturity investments carried at amortised cost has been incurred, the amount of impairment loss recognised in the consolidated income statement is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the investments' original effective interest rate.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Available for sale

Investments not classified as either "fair value through profit or loss" or "held to maturity" are classified as "available for sale". Available for sale assets are intended to be held for an indefinite period of time and may be sold in response to liquidity requirements or changes in interest rates, commodity prices or equity prices.

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Available for sale (continued)

Available for sale investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at fair value. The fair values of quoted financial assets in active markets are based on current prices. If the market for a financial asset is not active, and for unquoted securities, the Bank establishes fair value by using valuation techniques (e.g. recent arms length transactions, discounted cash flow analysis and other valuation techniques). Only in very rare cases where fair value cannot be measured reliably, investments are carried at cost and tested for impairment, if any.

Gains and losses arising from changes in fair value are recognised in the other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

If an available for sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset.

For an available-for-sale equity security, a subsequent decline in the fair value of the instrument is recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity.

- If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value;

- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income, accumulating in equity.

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Deposits and balances due from banks and loans and advances

'Deposits and balances due from banks' and 'Loans and advances' include non–derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investments will be recovered other than because of credit deterioration. Placements with banks represent time bound term deposits placed.

After initial measurement at fair value plus any directly attributable transaction costs, amounts 'Deposits and balances due from banks' and 'Loans and advances, net' are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the consolidated income statement.

Debt issued and other borrowed funds

Financial instruments issued by the Bank are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. These are recognized initially at fair value, net of transaction costs.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component.

Other financial liabilities

Other financial liabilities, are initially measured at fair value, net of transaction costs.

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

Reclassification of financial assets

Effective from 1 July 2008, accounting standards permit re-classification in certain circumstances, non–derivative financial assets out of the Held–for–trading category and into the Available–for–sale, Loans and receivables, or Held–to–maturity categories. From this date it was also permitted to reclassify, in rare circumstances, financial instruments out of the Available–for–sale category and into the Loans and receivables category.

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Reclassification of financial assets (continued)

Reclassifications are recorded at fair value at the date of reclassification, which is recognized as the new amortised cost.

For a financial asset reclassified out of the Available–for–sale category, any previous gain or loss on that asset recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the income statement.

The Bank may in rare circumstances reclassify a non–derivative trading asset out of the Held–for–trading category and into the Loans and receivables category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

(v) Derecognition of financial assets and financial liabilities

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

(v) Derecognition of financial assets and financial liabilities (continued)

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or extinguishment is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

(vi) Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but, where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented on a gross basis.

3.8 Sale and repurchase agreements

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos) are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under borrowings. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts paid under these agreements are included in 'Deposits and balances due from banks'. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

3.9 Securities borrowing and lending

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised on the statement of financial position nor are lent securities derecognised. Cash collateral received or given is treated as a loan or deposit. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded. The securities borrowing and lending activity arrangements are generally entered into through repos and reverse repos.

3 Summary of significant accounting policies (continued)

3.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, due to banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.11 Loan impairment

Refer to credit risk management section – Note 41.

3.12 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3.13 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Bank establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank and incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The valuations are computed using calibration and valuation techniques that use prices from observable current market transactions in the same or similar instruments or based off other available observable market data.

3 Summary of significant accounting policies (continued)

3.13 Fair value measurement (continued)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the quoted market price in an active market for an identical asset and liability (i.e. Level 1 input) or the value based on a valuation model that uses data only from observable markets is immediately recognised in profit or loss. Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is deferred and recognised as a gain or loss when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

In particular, the fair value of the financial assets and liabilities is determined as below:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative financial instruments are measured at fair value are generally obtained by reference to quoted market prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

- The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences is recognised in the consolidated income statement, and other changes are recognised in equity.

3.14 Hedge accounting

Derivatives designated as hedges are classified as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated in this way provided certain criteria are met.

3 Summary of significant accounting policies (continued)

3.14 Hedge accounting (continued)

At the inception of a hedging relationship, to qualify for hedge accounting, the Bank documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest income and expenses on designated qualifying hedge swaps is included in 'Net interest income'.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognised in the consolidated income statement and the carrying amount of the hedged item is adjusted accordingly. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to the carrying value of a hedged item for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity or derecognition.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective part is recognised immediately in the consolidated income statement. Amounts accumulated in equity are reclassified from other comprehensive income and transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss, in the same line of the consolidated income statement as the recognised hedged item. 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 non-financial asset or non-financial liability. Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting.

Any 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 from other comprehensive income.

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 other comprehensive income and held in the net investment hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are reclassified from other comprehensive income and included in the consolidated income statement on the disposal of the foreign operation.

3 Summary of significant accounting policies (continued)

3.14 Hedge accounting (continued)

Hedge effectiveness testing

To qualify for hedge accounting, the Bank requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Bank adopts for assessing hedge effectiveness depends on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent. Hedge ineffectiveness is recognised in the consolidated income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in net gain on dealing in derivatives under Net trading income.

3.15 Equity instruments

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

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

A financial instrument is classified as equity if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

(b) If the instrument will or may be settled in the Bank's own equity instruments, it is:

- a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
- a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

3 Summary of significant accounting policies (continued)

3.16 Treasury shares and contracts on own shares

Own equity instruments of the Bank which are acquired by the Bank or any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity.

No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

3.17 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantee contracts are initially recognised at their fair value, which is likely to equal the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

3.18 Acceptances

Acceptances have been considered within the scope of IAS 39 Financial Instruments: Recognition and Measurement) and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3.19 Collateral pending sale

The Bank occasionally acquires real estate and other collateral in settlement of certain loans and advances. Such assets are stated at the lower of their net realisable value. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated income statement.

3.20 Impairment of non-financial assets

At each consolidated statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3 Summary of significant accounting policies (continued)

3.20 Impairment of non-financial assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.21 Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee - Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rentals payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor - Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

3.22 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The fair value is determined on periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

3 Summary of significant accounting policies (continued)

3.22 Investment properties (continued)

Investment properties under development that are being constructed or developed for future use as investment property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under development are measured at fair value. Gains and losses arising from changes in the fair value of investment properties under development are included in the consolidated income statement in the period in which they arise. Upon completion of construction or development, such properties are transferred to investment properties.

3.23 Property and equipment

Property and equipment (including property and equipment under operating leases where the bank is the lessor) are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is charged to the consolidated income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated.

Estimated useful lives are as follows:

Freehold properties	15 to 25 years
Leasehold and freehold improvements	5 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment and accessories	3 to 10 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

3.24 Business combinations and Goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Bank’s share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Bank’s share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the consolidated income statement.

3 Summary of significant accounting policies (continued)

3.24 Business combinations and Goodwill (continued)

Goodwill acquired on business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss of goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.25 Capital work in progress

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Bank's policies.

3.26 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

3.27 Deposits from customers and borrowings

Deposits from customers and borrowings are initially measured at fair value which is normally consideration received, net of directly attributable to transaction costs incurred and subsequently measured at their amortised cost using the effective interest method.

3.28 Mandatory convertible securities

The components of mandatory convertible securities issued by the Bank are classified separately as equity and financial liability in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole. This is recognised and included as a separate component in the consolidated statement of changes in equity, and is not subsequently re-measured.

3 Summary of significant accounting policies (continued)

3.29 Employee benefits

i) Employees' end of service benefits

a) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the balance sheet in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in income, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

b) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees.

Pension and national insurance contributions for the U.A.E. and GCC citizens are made by the Bank to the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with UAE Federal Law No. 7 of 1999.

ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

3 Summary of significant accounting policies (continued)

3.29 Employee benefits (continued)

iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv) Employees' incentive plan shares

The cost of the equity-settled share-based payments is expensed over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

Where the terms of an equity–settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share–based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity–settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non–vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 33).

3.30 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3 Summary of significant accounting policies (continued)

3.30 Provisions and contingent liabilities (continued)

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.31 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Refer to Note 38 on Business Segment reporting.

3.32 Taxation

Provision is made for taxes at rates enacted or substantively enacted by the statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the countries in which the Bank operates.

3.33 Intangible assets

The Bank's intangible assets other than goodwill include intangible assets acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank. Intangible assets acquired separately are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3 Summary of significant accounting policies (continued)

3.33 Intangible assets (continued)

Estimated useful lives are as follows:

Credit card customer relationships	3 years
Wealth Management customer relationships	4 years
Core deposit intangibles	5 years

3.34 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

i) Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available– for–sale and financial instruments designated at fair value through profit or loss, interest and similar income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

ii) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

iii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

3 Summary of significant accounting policies (continued)

3.34 Revenue and expense recognition (continued)

(iii) Fee and commission income (continued)

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iv) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held–for–trading'. This includes any ineffectiveness recorded in hedging transactions.

3.35 Islamic financing

The Bank engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Ijara, Salam, Mudaraba, Sukuk and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are same as disclosed in Note 3.7.

Murabaha financing

A sale contract whereby the Bank sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Bank purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions.

Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Ijara financing

Ijara financing is an agreement whereby the Bank (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent installments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Bank transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee.

Ijara income is recognised on an effective profit rate basis over the lease term.

Mudaraba

A contract between the Bank 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 profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal.

3 Summary of significant accounting policies (continued)

3.35 Islamic financing (continued)

Mudaraba (continued)

Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Bank is the Rab Al Mal the losses are charged to the Bank's income statement on their declaration by the Mudarib.

Salam

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Bank (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

Wakala

An agreement between the bank and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Bank may be Wakil or Rab Al Mal depending on the nature of the transaction.

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

Sukuk

Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. It is asset-backed trust certificates evidencing ownership of an asset or its usufruct (earnings or benefits) and complies with the principle of Shari'ah.

Sukuk forms part of debts issued and other borrowed funds as mentioned in Note 3.7. Income is accounted for on a time apportioned basis over the term of the Sukuk.

4 Significant accounting judgments, estimates and assumptions

The reported results of the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS require the management, in preparing the Bank's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Bank's accounting policies that are considered by the Board of Directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Bank would affect its reported results.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (real estate prices indices, country risk and the performance of different individual groups, etc).

The impairment loss on loans and advances is disclosed in more detail in Note 41.9.

Impairment of available for sale investments

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of whether any decline in the fair value below cost of equity instruments is significant or prolonged. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

4 Significant accounting judgments, estimates and assumptions (continued)

Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt.

b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Fair valuation of investment properties

The fair value of investment properties is based on current prices in an active market for properties of a similar nature, condition or location. The Bank uses the valuation carried out by independent valuers as the fair value of its investment properties. The valuation is based upon assumptions such as market conditions, market prices, future rental income and period, etc.

The fair value movements on investment properties are disclosed in more detail in Note 12.

5 Cash and balances with Central Banks

	2012 AED'000	2011 AED'000
Cash on hand	**552,773**	547,769
Balances with Central Banks	**666,128**	28,242
Reserves maintained with Central Banks	**5,618,973**	5,053,934
Certificate of deposits with U.A.E. Central Bank	**2,500,000**	1,000,000
	9,337,874	6,629,945

The geographical concentration is as follows:

	2012 AED'000	2011 AED'000
Within the U.A.E.	**9,278,553**	6,601,201
Outside the U.A.E.	**59,321**	28,744
	9,337,874	6,629,945

6 Deposits and balances due from banks

	2012 AED'000	2011 AED'000
Nostro balances	**243,079**	257,728
Margin deposits	**480,291**	814,561
Time deposits	**12,757,803**	16,777,704
Reverse repo placements	**1,830,945**	-
Murabaha placements	**1,095,000**	2,249,000
Wakala placements	**110,000**	740,939
	16,517,118	20,839,932

The geographical concentration is as follows:

	2012 AED'000	2011 AED'000
Within the U.A.E.	**7,496,926**	12,798,544
Outside the U.A.E.	**9,020,192**	8,041,388
	16,517,118	20,839,932

The Bank hedges its foreign currency Reverse repo placements for foreign currency exchange rate risk using foreign exchange forward contracts and designates these instruments as cash flow hedges. The positive fair value of these swaps at December 31, 2012 was AED 7,252 thousand (December 31, 2011- AED Nil).

7 Trading securities

Quoted:	2012 AED'000	2011 AED'000
Bonds	**117,070**	15,755
Equity instruments	**524,807**	-
	641,877	15,755

Bonds represent investments in Government and public sector bonds. Equity instruments are equities held by the three funds subsidiaries and is invested in U.A.E. and G.C.C. securities.

The fair value of trading investments is based on quoted market prices.

The geographical concentration is as follows:

	2012 AED'000	2011 AED'000
Within the U.A.E.	**454,690**	15,755
Outside the U.A.E.	**187,187**	-
	641,877	15,755

8 Derivative financial instruments

In the ordinary course of business the Bank enters into various types of derivative transactions that are affected by variables in the underlying instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. Derivative financial instruments which the Bank enters into includes forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options.

The Bank uses the following derivative financial instruments for both hedging and trading purposes.

Forward and Futures transactions

Currency forwards represent commitments to purchase foreign and domestic currencies, including non-deliverable spot transactions (i.e. the transaction is net settled). Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk for futures contracts is negligible, as they are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

8 Derivative financial instruments (continued)

Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Bank's credit risk represents the potential loss if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Option transactions

Foreign currency and Interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer over the counter (OTC).

Fair value measurement models

Derivative contracts can be exchange traded or over the counter (OTC). The Bank values exchange traded derivatives using inputs at market-clearing levels. OTC derivatives are valued using market based inputs or broker/dealer quotations. Where models are required, the Bank uses a variety of inputs, including contractual terms, market prices, yield curves, and other reference market data.

For OTC derivatives that trade in liquid markets, such as generic forwards, swaps, and options, model inputs can generally be verified and model selection conforms to market practice.

Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. Subsequent to initial recognition, the Bank only updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker dealer quotations, or other empirical market data. In the absence of such evidence, management best estimates are used.

8 Derivative financial instruments (continued)

The fair values of derivative financial instruments held are set out below:

	Fair values	
	Assets	**Liabilities**
At December 31, 2012	**AED'000**	**AED'000**
Derivatives held for trading:		
Foreign exchange contracts	**182,709**	**178,041**
Interest rate and cross currency swaps	**3,990,096**	**4,000,297**
Options	**193,652**	**162,315**
Futures	**1,262**	**-**
Commodity and energy swaps	**191**	**147**
Swaptions	**8,964**	**8,964**
	4,376,874	**4,349,764**
Derivatives held as fair value hedges:		
Interest and cross currency swaps	**458,069**	**406,575**
Derivatives held as cash flow hedges:		
Interest rate swaps	**27,752**	**-**
Forward foreign exchange contracts	**130,531**	**11,999**
	4,993,226	**4,768,338**

	Fair values	
	Assets	Liabilities
At December 31, 2011	AED'000	AED'000
Derivatives held for trading:		
Foreign exchange contracts	110,015	96,112
Interest rate and cross currency swaps	4,070,651	4,050,688
Options	166,578	173,714
Futures	354	227
Commodity and energy swaps	23,067	21,835
Swaptions	5,903	5,666
	4,376,568	4,348,242
Derivatives held as fair value hedges:		
Interest and cross currency swaps	468,196	444,350
Derivatives held as cash flow hedges:		
Interest rate swaps	-	2,714
Forward foreign exchange contracts	-	26,262
	4,844,764	4,821,568

The net hedge ineffectiveness gains relating to the fair value and cash flow hedges amounting to AED 22,559 thousand (2011 – Losses of AED 5,673 thousand) has been recognised in the consolidated income statement.

Derivatives held or issued for trading purposes

The Bank's trading activities are predominantly related to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Bank also manages risk taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

8 Derivative financial instruments (continued)

Derivatives held or issued for hedging purposes

The Bank uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. In all such cases, the hedging relationship and objectives, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for based on the type of hedge.

9 Investment securities

	2012			
	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments				
Quoted:				
Bonds	**5,880,700**	**935,042**	**7,530,965**	**14,346,707**
Government securities	**2,604,477**	**1,236,175**	**246,697**	**4,087,349**
Equity instruments	**424**	**-**	**-**	**424**
Total quoted	**8,485,601**	**2,171,217**	**7,777,662**	**18,434,480**
Unquoted:				
Bonds	**-**	**2,057**	**-**	**2,057**
Equity instruments	**204,921**	**-**	**701**	**205,622**
Mutual funds	**70,757**	**-**	**-**	**70,757**
Total unquoted	**275,678**	**2,057**	**701**	**278,436**
Total available for sale investments	**8,761,279**	**2,173,274**	**7,778,363**	**18,712,916**

9 **Investment securities** (continued)

	2011			
	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments				
Quoted:				
Floating rate notes (FRNs)	367,708	-	-	367,708
Collateralised debt obligations (CDOs)	-	-	44,194	44,194
Bonds	4,641,033	857,742	5,605,453	11,104,228
Government securities	1,847,763	1,141,628	241,639	3,231,030
Equity instruments	6,905	-	-	6,905
Mutual funds	35,016	-	-	35,016
Total quoted	6,898,425	1,999,370	5,891,286	14,789,081
Unquoted:				
Equity instruments	201,967	-	483	202,450
Mutual funds	60,572	-	-	60,572
Total unquoted	262,539	-	483	263,022
Total available for sale investments	7,160,964	1,999,370	5,891,769	15,052,103

At December 31, 2012 quoted bond investments include bonds of fair value AED 5,082,992 thousand (December 31, 2011: AED 4,687,545 thousand) issued by public sector companies.

The Bank hedges interest rate risk on certain fixed rate/ floating rate investments through interest rate swaps and designates these as fair value and cash flow hedges, respectively. The net negative fair value of these interest rate swaps at December 31, 2012 was AED 384,649 thousand (December 31, 2011 – net negative fair value AED 447,064 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement.

The Bank entered into repurchase agreements and total return swap agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged remain with the Bank. The following table reflects the carrying value of these bonds and the associated financial liabilities:

	2012		2011	
	Fair value of pledged assets AED'000	**Carrying value of associated liabilities AED'000**	Fair value of pledged assets AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**1,220,647**	**1,063,133**	4,237,403	3,776,167

9 Investment securities (continued)

Further, the Bank pledged investment securities with fair value amounting to AED 1,651,988 thousand (December 31, 2011 – AED 1,110,902 thousand) as collateral against margin calls. The risks and rewards relating to the investments pledged remain with the Bank.

The movement in investment securities for December 31, 2012 and December 31, 2011 is as follows:

	2012 AED'000	2011 AED'000
Fair value at January 1,	**15,052,103**	8,263,138
Acquisitions	**4,330,235**	7,504,405
Disposals	**(1,408,955)**	(622,487)
Fair value adjustments	**802,108**	(48,951)
Exchange differences	**(26,064)**	9,588
Eliminated on consolidation of funds (Note 3.1)	**(35,016)**	-
Net impairment loss	**(1,495)**	(53,590)
Fair value at December 31,	**18,712,916**	15,052,103

10 Loans and advances, net

	2012 AED'000	2011 AED'000
Overdrafts (Retail and Corporate)	**5,775,020**	9,949,513
Corporate Loans	**101,206,881**	101,565,326
Retail Loans	**12,563,043**	12,303,074
Credit Cards	**2,076,531**	2,133,144
Islamic financing (Note 23)	**6,600,046**	3,749,732
Other facilities	**1,437,494**	765,824
	129,659,015	130,466,613
Less: Allowance for impairment (Note 41.9)	**(6,463,720)**	(5,711,876)
	123,195,295	124,754,737

The Bank hedges certain variable rate loans and advances for interest rate risk using interest rate swaps and designates these instruments as cash flow hedges. The positive fair value of these swaps at December 31, 2012 was AED 13,499 thousand (December 31, 2011- AED negative fair value of AED 3,796 thousand).

The Bank entered into repurchase agreements whereby loans are pledged and held by counter parties as collateral. The risks and rewards relating to the loans pledged will remain with the Bank. The following table reflects the carrying value of these loans and the associated financial liabilities:

	2012		2011	
	Carrying value of pledged assets AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged assets AED'000	Carrying value of associated liabilities AED'000
Repurchase agreements	**4,756,807**	**2,358,230**	4,756,807	2,358,230

11 Investment in associates

Name of associate	**2012** **AED'000**	2011 AED'000
Al Nokhitha Fund	-	56,298
ADCB MSCI U.A.E. Index Fund	-	25,519
Carrying value	-	81,817

Details of Bank's investment in associates were as follows:

				Ownership interest	
	Name of associate	**Principal activities**	**Country of incorporation**	**December 31 2012**	December 31 2011
(a)	Al Nokhitha Fund	Investing in equities listed in Abu Dhabi Exchange, Dubai Financial Market and in any other recognised stock exchanges of the GCC countries.	U.A.E.	-	21%
(b)	ADCB MSCI U.A.E. Index Fund	Investing in equities listed in Abu Dhabi Exchange, Dubai Financial Market, Dubai International Financial Exchange determined by MSCI UAE Index ("Index Securities").	U.A.E.	-	28%

As discussed in Note 3.1, following early adoption of IFRS 10, the Bank has fully consolidated these investments with effect from January 1, 2012. Accordingly the investments in associates have been treated as extinguished as of that date; no significant gains or losses arose on these extinguishments. No additional considerations passed on the date of the first consolidation and no goodwill arose on consolidation. The investments held by the Funds were already recorded at fair value.

Sale of investment in associate

In June 2011, the Bank's subsidiary ADCB Malaysia (Holdings) Ltd. Malaysia, entered into a binding sale and purchase agreement ("agreement") for the disposal of its entire equity holding held in RHB for a consideration of AED 7,111,817 thousand. Through this agreement the Bank transferred its risks and rewards with respect to the ownership of RHB to the purchaser and recognized the disposal and gain on disposal in the second quarter of 2011. This investment was treated as an associate until the date the disposal was approved. The total share of profits from RHB recognized in the income statement during the year ended December 31, 2011 amounted to AED 181,376 thousand.

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

11 Investment in associates (continued)

Net gain on sale of investment in associate recognized on sale date:

	AED'000	AED'000
Sale consideration		7,111,817
Less: Carrying value of investment in associate		(5,402,148)
Add: Cumulative changes in fair values recycled from comprehensive income	53,209	
Add: Other reserves recycled from comprehensive income statement	5,841	59,050
Less: Hedge reserve recycled from comprehensive income	(604,465)	
Add: Foreign currency translation reserve recycled from comprehensive income	205,156	(399,309)
Less: Cost associated with disposal		(55,095)
		1,314,315

12 Investment properties

	Completed and in use AED'000	**Under development AED'000**	**Total AED'000**
At January 1, 2011	215,609	73,583	289,192
Additions during the year	-	119,620	119,620
Decrease in fair value	(7,798)	(4,102)	(11,900)
At January 1, 2012	**207,811**	**189,101**	**396,912**
Additions during the year	**-**	**85,625**	**85,625**
Transfer from property and equipment, net (Note 14)	**182,530**	**-**	**182,530**
Transfer to property and equipment, net (Note 14)	**(106,836)**	**-**	**(106,836)**
Decrease in fair value	**(18,810)**	**(10,026)**	**(28,836)**
At December 31, 2012	**264,695**	**264,700**	**529,395**

The fair value of the Bank's investment properties are estimated by reference to current market prices for similar properties, adjusted as necessary for condition and location, or by reference to recent transactions updated to reflect current economic conditions. Valuations are carried out by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Discounted cash flow techniques may be used to calculate fair value in certain situations where there have been no recent transactions using current external market inputs such as market rents and interest rates. The date of valuation is December 31, 2012.

12 Investment properties (continued)

The valuation methodologies considered by external valuers include

a) Direct Comparable method: This method seeks to determine the value of the property from transactions of comparable properties.
b) Residual method: This method is used to assess the value of the property with a development potential where there is inadequate comparable evidence. This method is commonly used in the valuation of the site under development in the local market.

All investment properties of the Bank are located within the U.A.E.

During the year, the Bank has transferred a part of its property from property and equipment, net, to investment properties following a re-assessment of use of the property. Accordingly, AED 182,530 thousand which represented the fair value of the property on the date of such change in use has been transferred from property and equipment, net. Similarly the Bank has also transferred another part of its investment properties to property and equipment, net, following re-assessment of use of the property. Accordingly, AED 106,836 thousand which represented the fair value of the property on the date of such change in use has been transferred from investment properties (Note 14). These transactions being non-cash transactions have not been reflected in the consolidated statement of cash flows.

Details of rental income and direct operating expenses relating to investment properties are as follow:

	2012 AED'000	2011 AED'000
Rental income	**10,814**	12,984
Direct operating expenses	**214**	1,914

13 Other assets

	2012 AED'000	2011 AED'000
Interest receivable	**845,442**	859,898
Withholding tax	**45,880**	87,311
Prepayments	**59,766**	71,336
Clearing receivables	**1,148**	-
Acceptances	**4,738,044**	8,771,823
Others	**235,682**	231,126
	5,925,962	10,021,494

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the bank and is therefore recognised as a financial liability (Note 20) in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. The Bank generally receives cash collateral against these acceptances.

14 Property and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1, 2011	623,942	112,548	145,850	368,394	355,095	1,605,829
Exchange difference	(739)	(3)	(727)	(405)	-	(1,874)
Additions during the year	1,157	138	2,567	3,743	95,873	103,478
Transfers	110,341	8,196	6,546	81,211	(206,294)	-
Amounts expensed	-	-	-	-	(735)	(735)
Impairment loss	-	-	-	-	(57,440)	(57,440)
Disposals during the year	(114)	(19)	(2,985)	(42,958)	-	(46,076)
At January 1, 2012	**734,587**	**120,860**	**151,251**	**409,985**	**186,499**	**1,603,182**
Exchange difference	**(127)**	**-**	**(24)**	**-**	**(22)**	**(173)**
Additions during the year	**1,399**	**203**	**1,241**	**1,338**	**114,090**	**118,271**
Transfers	**3,316**	**10,556**	**7,531**	**42,213**	**(63,616)**	**-**
Amounts expensed	**-**	**-**	**-**	**-**	**(4,267)**	**(4,267)**
Transfer to investment property (Note 12)	**-**	**-**	**-**	**-**	**(182,530)**	**(182,530)**
Transfer from investment property (Note 12)	**106,836**	**-**	**-**	**-**	**-**	**106,836**
Impairment loss	**-**	**-**	**-**	**-**	**(21,337)**	**(21,337)**
Disposals during the year	**-**	**-**	**(860)**	**-**	**-**	**(860)**
At December 31, 2012	**846,011**	**131,619**	**159,139**	**453,536**	**28,817**	**1,619,122**
Accumulated depreciation						
At January 1, 2011	167,732	39,292	95,878	232,606	-	535,508
Exchange difference	(11)	(3)	(689)	(293)	-	(996)
Charge for the year	28,327	17,057	18,510	85,454	-	149,348
Disposals during the year	(62)	(19)	(2,887)	(42,228)	-	(45,196)
At January 1, 2012	**195,986**	**56,327**	**110,812**	**275,539**	**-**	**638,664**
Exchange difference	**-**	**-**	**20**	**-**	**-**	**20**
Charge for the year	**31,251**	**17,261**	**15,904**	**66,870**	**-**	**131,286**
Disposals during the year	**-**	**-**	**(782)**	**-**	**-**	**(782)**
At December 31, 2012	**227,237**	**73,588**	**125,954**	**342,409**	**-**	**769,188**
Carrying amount						
At December 31, 2012	**618,774**	**58,031**	**33,185**	**111,127**	**28,817**	**849,934**
At December 31, 2011	538,601	64,533	40,439	134,446	186,499	964,518

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

14 Property and equipment, net (continued)

During the year, one of the Bank's properties under construction for was assessed for impairment which led to the recognition of an impairment loss of AED 21,337 thousand (2011: AED 57,440) in the consolidated income statement. The recoverable amount of the relevant asset was determined on the basis of its fair value. The fair valuation of the property conforms to International Valuation Standards and was determined by reference to recent market transactions on arm's length term by an independent property valuer.

15 Intangible assets

		Other intangible assets			
	Goodwill AED' 000	Credit card customer relationship AED' 000	Wealth management customer relationship AED' 000	Core deposit intangible AED' 000	Total AED' 000
Cost or valuation					
As at January 1, 2011	18,800	12,700	18,000	112,700	162,200
As at December 31, 2012	**18,800**	**12,700**	**18,000**	**112,700**	**162,200**
Accumulated amortisation					
As at January 1, 2011	-	635	750	5,635	7,020
Amortisation during the year	-	4,387	4,600	22,540	31,527
At January 1, 2012	**-**	**5,022**	**5,350**	**28,175**	**38,547**
Amortisation during the year	**-**	**4,387**	**4,600**	**22,540**	**31,527**
As at December 31, 2012	**-**	**9,409**	**9,950**	**50,715**	**70,074**
Carrying amount					
At December 31, 2012	**18,800**	**3,291**	**8,050**	**61,985**	**92,126**
At December 31, 2011	18,800	7,678	12,650	84,525	123,653

On October 1, 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses (the "Business") of The Royal Bank of Scotland ("RBS") in the U.A.E. for consideration of AED 168,900 thousand. Based on the fair valuation and purchase price allocation exercise performed by an external consultant immediately following the acquisition in 2010, the Bank recognised AED 143,400 thousand as intangible assets and AED 18,800 thousand as goodwill.

Goodwill

For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes, which is not higher than the Bank's business segments.

15 Intangible assets (continued)

Goodwill (continued)

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

Cash generating unit (CGU)	AED' 000
Credit cards	**10,784**
Loans	**5,099**
Overdrafts	**94**
Wealth management business	**2,823**
	18,800

Other intangible assets

Customer relationships	Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, credit card and wealth management customers were considered separately, given their differing risk profiles, relationships and loyalty. These relationships are expected to generate material recurring income in form of interest, fees and commission.
Core deposit intangible	The value of core deposit intangible asset arises from the fact that the deposit base of the bank represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible.

Impairment testing of goodwill

No impairment losses on goodwill were recognized during the year ended December 31, 2012 (2011: AED Nil).

The recoverable amounts for the CGUs have been assessed based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of these units. Value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results and the business plan in 2012. Cash flows were extrapolated using a rate expected to be realized by these businesses. The forecast period is based on the Bank's current perspective with respect to the operation of these units and range from 3-4 years.

- Appropriate discount rates were applied in determining the recoverable amounts for the CGUs. These discount rates were estimated based on capital asset pricing model using data from U.S. bond and U.A.E. capital markets and range from 14.1% to 17.2%.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonable changes in these assumptions are not expected to cause the recoverable amount of the units to decline below the carrying amount.

16 Due to banks

	2012	2011
	AED'000	AED'000
Vostro balances	**120,504**	316,941
Margin deposits	**351,054**	381,951
Time deposits	**3,939,713**	2,391,494
	4,411,271	3,090,386

The Bank hedges certain time deposits for interest rate and foreign currency exchange risk using cross currency swaps and designate these as fair value hedges. The positive fair value of these swaps at December 31, 2012 was AED 186 thousand (December 31, 2011 - positive fair value of AED 22,578 thousand).

17 Deposits from customers

	2012	2011
	AED'000	AED'000
By category		
Current deposits	**29,330,632**	23,968,297
Margin deposits	**345,079**	306,047
Savings deposits	**2,826,423**	2,237,783
Time deposits	**61,420,946**	64,146,038
Murabaha deposits	**6,578,970**	9,201,851
Long term government deposits (Note 41.5)	**449,569**	458,940
Other Islamic deposits (Note 23)	**8,265,306**	8,851,869
	109,216,925	109,170,825

An amount of AED 716,652 thousand of Euro commercial paper has been reclassified in the statement of financial position as at December 31, 2011 from Deposits from customers to Euro commercial paper (Note 18) to be consistent and comparable to current year's presentation.

The Bank hedges certain foreign currency time deposits foreign currency exchange risk using foreign exchange forward contracts and designates these as cash flow hedges. The positive fair value of these swaps at December 31, 2012 was AED 13,257 thousand (December 31, 2011 – AED negative fair value of AED 18,182 thousand).

18 Euro commercial paper

The Bank established a USD 4 billion Euro commercial paper programme (the ECP Programme) for the issuance of Euro commercial paper under the agreement dated June 5, 2007 with Banc of America Securities Limited.

The Bank hedges ECP for foreign currency exchange risk through foreign exchange forward contracts and designates these instruments as cash flow hedges. The net positive fair value of these hedge contracts at December 31, 2012 was AED 98,024 thousand (December 31, 2011: negative fair value of AED 4,284 thousand).

Refer Note 17 for the reclassification of Deposits from customers to Euro commercial paper.

19 Borrowings

The details of borrowings as at December 31, 2012 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Unsecured notes	Chinese Renminbi (CNH)	-	-	173,580	-	173,580
	Malaysian Ringitt (MYR)	-	871,027	847,028	-	1,718,055
	Swiss Franc (CHF)	-	575,705	388,677	-	964,382
	Turkish Lira (TRY)	-	-	94,003	-	94,003
	U.A.E. Dirham (AED)	1,253,000	-	500,000	-	1,753,000
	US Dollar (US$)	-	3,673,000	-	587,680	4,260,680
		1,253,000	5,119,732	2,003,288	587,680	8,963,700
Syndicated loans	US Dollar (US$)	3,739,849	-	-	-	3,739,849
Islamic sukuk notes	US Dollar (US$)	-	-	1,836,500	-	1,836,500
Subordinated floating rate notes	US Dollar (US$)	-	-	1,117,143	-	1,117,143
Tier 2 Loan	U.A.E. Dirham (AED)	-	-	6,617,456	-	6,617,456
Borrowings through repurchase agreements	US Dollar (US$)	1,450,631	620,737	-	-	2,071,368
	U.A.E. Dirham (AED)	1,349,995	-	-	-	1,349,995
		7,793,475	5,740,469	11,574,387	587,680	25,696,011
Fair value adjustment on borrowings hedged						443,636
						26,139,647

Included in borrowings is AED 15,347,201 thousand which have been hedged using interest rate and cross currency swaps. These swaps are designated as either fair value or cash flow hedges. The net positive fair value of these swaps at December 31, 2012 was AED 450,212 thousand.

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

19 Borrowings (continued)

The details of borrowings as at December 31, 2011 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	72,126	-	-	-	72,126
	Hong Kong Dollar (HKD)	94,333	-	-	-	94,333
	Malaysian Ringitt (MYR)	-	-	871,027	473,706	1,344,733
	Slovak Koruna (SKK)	103,758	-	-	-	103,758
	South African Rand (ZAR)	51,299	-	-	-	51,299
	Swiss Franc (CHF)	-	-	575,705	-	575,705
	Turkish Lira (TRY)	-	-	94,003	-	94,003
	U.A.E. Dirham (AED)	-	1,253,000	-	500,000	1,753,000
	US Dollar (US$)	-	3,673,000	-	73,460	3,746,460
		321,516	4,926,000	1,540,735	1,047,166	7,835,417
Syndicated loans	US Dollar (US$)	3,789,801	3,739,849	-	-	7,529,650
	Euro (EUR)	328,015	-	-	-	328,015
Islamic sukuk notes	US Dollar (US$)	-	-	1,836,500	-	1,836,500
Subordinated floating rate notes	US Dollar (US$)	-	-	1,172,789	-	1,172,789
Tier 2 Loan	U.A.E. Dirham (AED)	-	-	6,617,456	-	6,617,456
Borrowings through repurchase agreements	US Dollar (US$)	2,713,033	870,134	-	-	3,583,167
	U.A.E. Dirham (AED)	2,358,230	193,000	-	-	2,551,230
		9,510,595	9,728,983	11,167,480	1,047,166	31,454,224
Fair value adjustment on borrowings hedged						442,785
						31,897,009

Included in borrowings is AED 10,096,933 thousand which have been hedged using interest rate and cross currency swaps. These swaps are designated as fair value hedges. The positive fair value of these swaps at December 31, 2011 was AED 438,421 thousand.

19 Borrowings (continued)

Interest on unsecured notes is payable quarterly, semi annually and annually in arrears and the contractual coupon rates as at December 31, 2012 are as follows:

Currency	Within 1 year	1-3 years	3-5 years	Over 5 years
CNH	-	-	Fixed rate of 3.7% p.a. & 4.125% p. a	-
MYR	-	Fixed rate of 5.2%p.a	Fixed rate 4.3% & 5.35% p.a.	-
CHF	-	Fixed rate of 3.01% p.a.	Quarterly coupons with 110 basis point over CHF LIBOR	-
TRY	-	-	Fixed rate of 12.75% p.a.	-
AED	Fixed rate of 6% p.a.	-	Fixed rate of 6% p.a.	-
US$	-	Fixed rate of 4.75% p.a.	-	Fixed rate of 4.7% to 5.3875% p.a.

Syndicated loans

US$: Monthly coupons in arrears with 25 basis points over LIBOR and quarterly coupons with 27.5 basis points to 55 basis points over LIBOR.

Sukuk financing notes

The Sukuk carries an expected profit rate of 4.07% per annum payable semi annually.

Subordinated floating rate notes

Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 110 basis points over 3 months LIBOR. The subordinated floating rate notes were obtained from financial institutions outside the U.A.E. and qualified as Tier 2 subordinated loan capital for the first 5 year period till 2011 and thereafter are amortised at the rate of 20% per annum until 2016 for capital adequacy calculation (Note 50). This has been approved by the Central Bank of the U.A.E.

Tier 2 loan

In March 2009, the Bank converted AED 6,617,456 thousand government deposits into Tier 2 qualifying loans. The Tier 2 qualifying loans will mature seven years from the date of the issue and interest is payable on a quarterly basis at a fixed rate of 4 percent per annum commencing March 31, 2009 for the first two years, 4.5 percent per annum for the third year, 5 percent per annum for the fourth year and 5.25 percent per annum for the remaining period. The terms also provide that the Bank will have a call option to repay the loans partially or fully at the end of five years from the date of issue. For regulatory purposes, the loans qualify as Tier 2 capital and has been amortised, starting current year, at the rate of 20 per annum until maturity for capital adequacy calculation (Note 50). This has been approved by the Central Bank of the U.A.E.

Borrowings through repurchase agreements

US$: Quarterly coupons in arrears with 300 basis points plus LIBOR.
Half yearly coupons in arrears with 86 to 300 basis points plus LIBOR.

AED: Quarterly coupons in arrears with 300 basis points plus EIBOR.
Half yearly coupons in arrears with 115 basis points plus EIBOR.

20 Other liabilities

	2012 AED'000	2011 AED'000
Interest payable	**752,030**	931,026
Recognised liability for defined benefit obligations	**213,631**	179,824
Accounts payable and other creditors	**247,759**	973,519
Clearing payables	**955**	238
Deferred income	**229,392**	171,805
Acceptances (Note 13)	**4,738,044**	8,771,823
Others	**813,034**	875,332
	6,994,845	11,903,567

Defined benefit obligations

The Bank provides gratuity benefits to its eligible employees in U.A.E. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2012 by a registered actuary in the U.A.E. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Bank holds adequate provisions against the defined benefit obligations assessed by the Actuary and the details are follows:

	2012 AED'000	2011 AED'000
Amounts recognised in consolidated income statement in respect of these defined benefit plans	**51,110**	45,193
Net recognised liability for defined benefit obligations	**213,631**	179,824

Movements in defined benefit obligations in the current year were as follows:

	2012 AED'000	2011 AED'000
Opening defined benefit obligations	**179,824**	151,087
Net charge during the year	**51,110**	45,193
Benefits paid	**(17,303)**	(16,456)
Net recognised liability for defined benefit obligations	**213,631**	179,824

21 Share capital and share premium

	Authorised	Issued and fully paid	
		2012	2011
	AED'000	**AED'000**	AED'000
Ordinary shares of AED 1 each	**5,595,597**	**5,595,597**	5,595,597

	2012		2011	
	Number of shares	**AED'000**	Number of Shares	AED'000
As at January 1,	**5,595,597,381**	**5,595,597**	4,810,000,000	4,810,000
Shares issued on conversion of mandatory convertible securities	**-**	**-**	785,597,381	785,597
As at December 31,	**5,595,597,381**	**5,595,597**	5,595,597,381	5,595,597

In April 2011, mandatory convertible securities ("MCS") with a nominal value of AED 4,800,000 thousand on which interest had been payable at EIBOR plus 1.5 per cent per annum on a quarterly basis, in arrears, were converted into ordinary equity shares of the Bank. On conversion, 785,597,381 equity shares were issued at the conversion price of AED 6.11 per share. The difference between the nominal value of the shares and conversion price resulted in share premium.

Reconciliation of share premium is as follows:

	AED' 000
Nominal value of MCS	**4,800,000**
Less: Nominal value of shares issued on conversion of MCS	**(785,597)**
Share premium	**4,014,403**
Less: Mandatory convertible securities – liability component	**(144,482)**
Less: Issue expenses of MCS	**(21,635)**
Balance of share premium	**3,848,286**

As at December 31, 2012, Abu Dhabi Investment Council held 58.083% (December 31, 2011: 58.083%) of the Bank's issued and fully paid up share capital.

Treasury Shares

As at December 31, 2012, of the total issued shares of the Bank, its managed funds, now accounted for as subsidiaries, held 11,033 thousand shares (December 31, 2011 –14,040 thousand shares) (Refer Note 3.1 and Note 22).

Dividends

Following the Annual General Meeting held on April 24, 2012, the Shareholders approved the distribution of proposed cash dividends of AED 1,119,119 thousand representing 20% of the paid up share capital for the year 2011 (For the year 2010 : Nil).

For the year ended December 31, 2012, the Board of Directors have proposed to pay cash dividends of AED 1,398,899 thousand representing 25% of the paid up capital (December 31, 2011 : AED 1,119,119 thousand). This is subject to the approval of the shareholders in the Annual General Meeting.

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

22 Other reserves

Reserves movement for the year ended 31 December 2012:

	Treasury shares AED'000	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Hedge reserve AED'000	Cumulative changes in fair values AED'000	Total AED'000
Balance at January 1, 2012	**-**	**(104,595)**	**1,677,069**	**1,632,282**	**2,000,000**	**150,000**	**(27,521)**	**(2,581)**	**(404,758)**	**4,919,896**
Exchange difference arising on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**(6,812)**	**-**	**-**	**(6,812)**
Fair value changes of cash flow hedges on financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,337**	**-**	**29,337**
Fair value changes on available for sale investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**824,569**	**824,569**
Fair value changes reversed on disposal/impairment of available for sale investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,963)**	**(2,963)**
Other comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(6,812)**	**29,337**	**821,606**	**844,131**
Shares purchased (Note 24)	**-**	**(40,000)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(40,000)**
Shares – vested portion (Note 24)	**-**	**48,339**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**48,339**
Treasury shares arising on consolidation of Funds (Note 3.1)	**(30,937)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(30,937)**
Transfers to statutory and legal reserves from retained earnings	**-**	**-**	**273,581**	**273,581**	**-**	**-**	**-**	**-**	**-**	**547,162**
Balance at December 31, 2012	**(30,937)**	**(96,256)**	**1,950,650**	**1,905,863**	**2,000,000**	**150,000**	**(34,333)**	**26,756**	**416,848**	**6,288,591**

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

22 Other reserves (continued)

Reserves movement for the year ended 31 December 2011:

	Employees' incentive plan Shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Hedge reserve AED'000	Cumulative changes in fair values AED'000	Other reserve AED'000	Total AED'000
Balance at January 1, 2011	(36,677)	1,374,483	1,329,696	2,000,000	150,000	136,676	(537,904)	174,799	5,630	4,596,703
Exchange difference arising on translation of foreign operations	-	-	-	-	-	40,196	-	-	-	40,196
Fair value changes of cash flow hedges on financial assets	-	-	-	-	-	-	(2,581)	-	-	(2,581)
Fair value changes on net investment in foreign operation hedges	-	-	-	-	-	-	(66,561)	-	-	(66,561)
Fair value changes on available for sale investments	-	-	-	-	-	-	-	(559,061)	-	(559,061)
Fair value changes reversed on disposal/impairment of available for sale investments	-	-	-	-	-	-	-	52,785	-	52,785
Share in other comprehensive income of associate	-	-	-	-	-	763	-	(20,072)	211	(19,098)
Reversal of related reserve balances on disposal of associate (Note 11)	-	-	-	-	-	(205,156)	604,465	-	-	399,309
Reversal of share in other comprehensive income of associate on disposal of associate (Note 11)	-	-	-	-	-	-	-	(53,209)	(5,841)	(59,050)
Total other comprehensive (loss)/income for the year	-	-	-	-	-	(164,197)	535,323	(579,557)	(5,630)	(214,061)
Shares purchased (Note 24)	(100,800)	-	-	-	-	-	-	-	-	(100,800)
Shares – vested portion (Note 24)	32,882	-	-	-	-	-	-	-	-	32,882
Transfers to statutory and legal reserves from retained earnings	-	302,586	302,586	-	-	-	-	-	-	605,172
Balance at December 31, 2011	(104,595)	1,677,069	1,632,282	2,000,000	150,000	(27,521)	(2,581)	(404,758)	-	4,919,896

23 Islamic financing

Islamic financing assets

	2012	2011
	AED 000	AED 000
Murabaha	**720,544**	565,975
Ijara financing	**2,622,091**	651,970
Mudaraba	**471,696**	154,578
Salam	**2,720,103**	2,324,991
Others	**65,612**	52,218
	6,600,046	3,749,732
Less: Allowance for impairment	**(29,247)**	(20,942)
	6,570,799	3,728,790

Gross Ijara and related present value of the minimum Ijara payments:

	2012	2011
	AED 000	AED 000
Less than one year	**549,978**	397,173
Between one year and five years	**2,169,248**	189,507
More than five years	**419,525**	366,669
Gross Ijara	**3,138,751**	953,349
Less: Deferred income	**(516,660)**	(301,379)
Net Ijara	**2,622,091**	651,970
Net present value		
Less than one year	**459,300**	271,187
Between one year and five years	**1,812,299**	129,745
More than five years	**350,492**	251,038
Total net present value	**2,622,091**	651,970

Income from Islamic financing includes the following:

	2012	2011
	AED 000	AED 000
Murabaha	**48,514**	47,418
Ijara financing	**54,751**	56,083
Mudaraba	**14,695**	31,918
Salam	**235,079**	214,658
Others	**1,006**	996
	354,045	351,073

23 Islamic financing (continued)

Islamic deposits include the following:

	2012	2011
	AED 000	AED 000
Wadiah – demand deposits	**332,735**	437,980
Mudaraba savings and term deposits	**4,950,458**	3,653,439
Wakala deposits	**2,982,113**	4,760,450
	8,265,306	8,851,869

Islamic profit distribution includes the following:

	2012	2011
	AED 000	AED 000
Mudaraba savings and term deposits	**59,638**	71,071
Wakala deposits	**139,698**	133,119
Sukuk	**60,788**	6,903
	260,124	211,093

In November 2011, ADCB through its subsidiary ADCB Islamic Finance (Cayman) Limited (Sukuk company) issued a Shari'ah compliant financing arrangement - Sukuk amounting to US$ 500,000 thousand (AED 1,836,500 thousand). The Sukuk carries an expected profit rate of 4.07% per annum payable semi annually and is due to mature in November 2016. The Sukuk is listed on the London Stock Exchange.

24 Employees' incentive plan shares, net

The Bank has established an Employee Long Term Incentive Plan (the "Plan") to recognise and retain good performing key management employees. Under the Plan, the employees will be granted shares of the Bank when they meet the vesting conditions. These shares were acquired from the stock market by the Bank at the prevailing market price on the acquisition dates. These shares are held by ACB LTIP (IOM) Limited, a consolidated subsidiary, until vesting conditions are met. The Bank's Nomination/Remuneration and HR Committee has determined and approved the shares granted to management level employees based on the Bank's key performance indicators and with respect to the annual salary of each employee.

For the year ended December 31, 2012, the Bank had two incentive plans in force as described below.

Effective date of the grant	January 1, 2011	January 1, 2012
Number of shares granted	25,555,799	14,102,774
The fair value of the granted shares at the grant date in AED thousand	64,197	38,642
Vesting Date	December 31, 2013	December 31, 2014

Vesting conditions – Three years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement, termination or achieving the budgeted performance).

The movement of plan shares is as follows

	2012	2011
Shares outstanding at January 1	**40,489,041**	38,233,452
Shares granted during the year	**14,102,774**	25,555,799
Vested during the year	**(12,836,541)**	(20,580,158)
Forfeited during the year	**(674,453)**	(2,720,052)
Outstanding as at December 31	**41,080,821**	40,489,041
Vested as at December 31	**23,532,368**	-
Amount of "Plan" costs recognised in the consolidated statement of income (AED'000)	**48,339**	32,882

Total number of plan shares forfeited and remain un-allotted with the Bank's subsidiary at December 31, 2012 were 3,609,712 (December 31, 2011 – 3,440,161 shares). Similarly, as at December 31, 2012 the Bank had purchased 9,042,341 thousand shares for the 2013-2015 plan. The Bank's Nomination/Remuneration and HR Committee's intention is to include these shares in the next incentive plan scheme and allot the same to existing eligible employees.

25 Capital notes

In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier I regulatory capital notes with a principal amount of AED 4 billion (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bear interest at the rate of 6% per annum payable semi-annually until February 2014, and a floating interest rate of 6 month EIBOR plus 2.3% per annum thereafter. However the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service the coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date ("Non-Payment Event").

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 Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

26 Interest income

	2012	2011
	AED'000	AED'000
Loans and advances to banks	**247,377**	214,597
Loans and advances to customers	**6,722,138**	6,839,347
Investment securities	**500,165**	293,729
	7,469,680	7,347,673

27 Interest expense

	2012	2011
	AED'000	AED'000
Deposits from banks	**14,250**	26,058
Deposits from customers	**1,667,702**	2,068,219
Debt securities issued and subordinated liabilities	**451,800**	383,222
Interest on mandatory convertible securities and long term notes	**222,618**	328,055
	2,356,370	2,805,554

28 Net fees and commission income

	2012 AED'000	2011 AED'000
Fees and commission income		
Retail banking fees	**671,824**	639,578
Corporate banking fees	**349,200**	304,506
Brokerage fees	**3,894**	3,425
Fees from trust and other fiduciary activities	**67,706**	49,585
Other fees	**52,803**	45,195
Total fees and commission income	**1,145,427**	1,042,289
Fees and commission expenses	**(205,392)**	(144,132)
Net fees and commission income	**940,035**	898,157

29 Net trading income

	2012 AED'000	2011 AED'000
Net gains on dealing in derivatives	**50,220**	138,254
Net gains from dealing in foreign currencies	**148,448**	167,033
Net gains from trading securities	**104,018**	29,482
	302,686	334,769

30 Other operating income

	2012 AED'000	2011 AED'000
Net (losses)/gains from investment securities	**(4,224)**	6,852
Property management income	**111,091**	99,287
Rental income	**20,940**	20,917
Income from retirement of long term debt	**6,399**	1,670
Dividends received	**25,043**	8,879
Others	**14,783**	28,682
	174,032	166,287

31 Operating expenses

	2012 AED'000	2011 AED'000
Staff expenses	**1,164,649**	1,094,956
Depreciation (Note 14)	**131,286**	149,348
Amortisation of intangible assets (Note 15)	**31,527**	31,527
Others	**741,802**	787,394
	2,069,264	2,063,225

32 Impairment allowances

	2012 **AED'000**	2011 AED'000
Impairment allowance on loans and advances (Note 41.9)	**1,691,108**	2,082,360
Impairment (recoveries)/losses on investment securities	**(2,726)**	53,590
Loss on credit default swaps	**-**	204,438
Impairment allowance on capital work in progress (Note 14)	**21,337**	57,440
	1,709,719	2,397,828

33 Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan.

	2012	2011
Net profit for the year attributable to the equity holders of the Bank (AED'000)	**2,735,810**	3,025,865
Add: Interest on Mandatory convertible securities (MCS) for the period (AED'000)	**-**	25,564
Less: Capital notes coupon paid (AED'000)	**(240,000)**	(236,667)
Net adjusted profit for the year attributable to the equity holders of the Bank (AED'000) (a)	**2,495,810**	2,814,762
Weighted average number of shares in issue throughout the period (000's)	**5,595,597**	5,595,597
Less: Treasury shares arising on consolidation of funds	**(14,186)**	-
Less: Weighted average number of shares held on account of Employees' incentive plan (000's)	**(56,847)**	(47,481)
Weighted average number of equity shares used for calculating basic earnings per share (000's) (b)	**5,524,564**	5,548,116
Add: Treasury shares arising on consolidation of funds	**14,186**	-
Add: Weighted average number of shares held on account of Employees' incentive plan (000's)	**56,847**	47,481
Weighted average number of equity shares used for calculating diluted earnings per share (000's) (c)	**5,595,597**	5,595,597
Basic earnings per share (AED) (a)/(b)	**0.45**	0.51
Diluted earnings per share (AED) (a)/(c)	**0.45**	0.50

34 Operating leases

Bank as lessee

Leasing arrangements

Operating leases relates mainly to leases of branch premises of the Bank with lease terms between 1 to 2 years. The Bank does not have an option to purchase the leased premises at the expiry of the lease periods.

Payments recognised as an expense

	2012 AED '000	2011 AED '000
Minimum lease payments	**62,315**	65,739

Non-cancellable operating lease commitments

	2012 AED '000	2011 AED '000
Not later than one year	**42,327**	27,273
Later than 1 year and not later than 5 years	**67,523**	44,130
	109,850	71,403

Bank as lessor

Operating leases relate to the investment property owned by the Bank with lease terms of 1 year, with an option to extend the lease term. All operating lease contracts contain market review clause in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental incomes earned by the Bank from its investment properties and direct operating expenses arising on the investment properties for the year are set out in Note 12.

Non-cancellable operating lease receivables

	2012 AED '000	2011 AED '000
Not later than one year	**9,559**	3,216
Later than one year	**11,250**	-

35 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	2012	2011
	AED'000	AED'000
Cash and balances with Central Banks	**9,337,874**	6,629,945
Deposits and balances due from banks	**16,517,118**	20,839,932
Due to Central Banks	**-**	(48,100)
Due to banks	**(4,411,271)**	(3,090,386)
	21,443,721	24,331,391
Less: Deposits and balances due from banks and cash and balances with Central Banks – with original maturity more than 3 months	**(2,571,339)**	(5,509,565)
Add: Due to banks – with original maturity more than 3 months	**307,932**	439,807
	19,180,314	19,261,633

36 Related party transactions

The Bank enters into transactions with funds under management, parent and its related entities, directors, senior management and their related entities and the Government of Abu Dhabi (Ultimate controlling party and its related entities) in the ordinary course of business at commercial interest and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of ADCB, being the directors, chief executive officer and his direct reports.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Parent and ultimate controlling party

Abu Dhabi Investment Council holds 58.083 % (December 31, 2011: 58.083%) of the Bank's issued and fully paid up share capital (Note 21). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006 and so the ultimate controlling party is the Government of Abu Dhabi.

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

36 Related party transactions (continued)

Related party balances included in the consolidated statement of financial position and consolidated income statement are as follows:

December 31, 2012 Nature of transaction	Ultimate controlling party and its related parties AED '000	Directors and related parties AED '000	Key managers AED '000	Trust activities AED '000	Total AED '000
Due from banks	2,629,276	-	-	-	2,629,276
Derivative financial instruments - Assets	1,416,608	37,667	-	-	1,454,275
Investment securities	5,288,591	24,175	-	-	5,312,766
Loans & Advances, net	23,938,759	443,138	25,046	-	24,406,943
Other Assets	41,909	-	-	-	41,909
Due to banks	1,268,365	-	-	-	1,268,365
Other liabilities	-	-	-	2,494	2,494
Deposits from customers	26,884,205	290,242	18,595	-	27,193,042
Tier 2 Loan	6,617,456	-	-	-	6,617,456
Capital Notes	4,000,000	-	-	-	4,000,000
Commitments and Contingent Liabilities	2,032,258	68,292	300	-	2,100,850
Interest, fees and other income	934,301	29,686	1,171	26,627	991,785
Interest expenses	432,424	8,358	316	-	441,098
Derivative income	309,316	16,765	-	-	326,081
Interest expenses on Tier 2 loan	253,042	-	-	-	253,042
Coupon paid on Capital Notes	240,000	-	-	-	240,000

36 Related party transactions (continued)

December 31, 2011

Nature of transaction	Ultimate controlling party and its related parties AED '000	Directors and related parties AED '000	Key managers AED '000	Trust activities AED '000	Total AED '000
Due from banks	2,248,148	-	-	-	2,248,148
Derivative financial instruments - Assets	1,189,781	-	-	-	1,189,781
Investment securities	1,424,421	-	-	-	1,424,421
Loans & advances, net	25,985,733	125,782	15,228	-	26,126,743
Other assets	7,640	-	-	-	7,640
Due to banks	400,000	-	-	-	400,000
Other liabilities	-	-	-	7,199	7,199
Deposits from customers	29,800,919	26,942	9,997	-	29,837,858
Tier 2 loan	6,617,456	-	-	-	6,617,456
Capital notes	4,000,000	-	-	-	4,000,000
Commitments and contingent liabilities	190,169	2,065	-	-	192,234
Interest, fees and other income	687,573	5,608	499	65,000	758,680
Interest expense	401,469	170	286	-	401,925
Derivative income	693,266	-	-	-	693,266
Interest expense on Tier 2 loan	285,853	-	-	-	285,853
Coupon paid on Capital Notes	236,667	-	-	-	236,667
Interest paid on mandatory convertible securities	9,116	-	-	-	9,116

Remuneration of key management employees and Board of Directors remuneration during the year are as follows:

	2012 AED'000	2011 AED'000
Short term benefits	**23,522**	20,200
Termination benefits	**2,044**	853
Share-based payments	**20,238**	20,544
	45,804	41,597

	2012 AED'000	2011 AED'000
Board of Directors remuneration	**10,541**	5,584

Board of Directors remuneration of current year includes AED 5,166 thousand payout for 2011.

37 Commitments and contingent liabilities

The Bank had the following commitments and contingent liabilities at December 31:

	2012 AED'000	2011 AED'000
Commitments on behalf of customers		
Letters of credit	**6,251,347**	4,049,791
Guarantees	**12,250,409**	9,806,027
Commitments to extend credit – Revocable	**6,744,165**	6,313,900
Commitments to extend credit – Irrevocable	**3,210,238**	5,688,356
Others	**55,095**	55,095
	28,511,254	25,913,169
Others		
Commitments for future capital expenditure	**131,885**	274,887
Commitments to invest in investment securities	**212,764**	230,009
	28,855,903	26,418,065

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, and guarantees which are designed to meet the requirements of the Bank's customers. Irrevocable commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Revocable commitments to extend credit represent commitments to make loan and advances and revolving credits which can be cancelled by the bank unconditionally without any contractual obligations. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

Commitments and contingent liabilities, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

38 Operating Segments

The Bank has four reportable segments, as described below, which are the Bank's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic divisions, the Bank Management Committee reviews internal management reports on at least a quarterly basis.

The following summary describes the operations in each of the Bank's reportable segments

Wholesale banking **-**	comprises of business banking, cash management, trade finance, corporate finance, investment banking, Indian operations, Islamic financing, infrastructure and strategic client operations. It includes loans, deposits and other transactions and balances with corporate customers.
Consumer banking **-**	comprises of retail, wealth management and Islamic financing. It includes loans, deposits and other transactions and balances with retail customers and corporate and private accounts of high net worth individuals and funds management activities.
Investments and treasury **-**	comprises of central treasury operations, management of the Bank's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Bank's funding and centralized risk management activities through borrowings, issues of debt securities, use of derivatives for risk management and investing in liquid assets such as short-term placements and corporate and government debt securities and trading and corporate finance activities.
Property management **-**	comprises of real estate management and engineering service operations of subsidiaries - Abu Dhabi Commercial Properties L.L.C., Abu Dhabi Commercial Engineering Services L.L.C., ADCB Real Estate Fund operations and rental income of ADCB.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Management Executive Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter- segment pricing is determined on an arm's length basis.

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

38 Operating segments (continued)

The following is an analysis of the Bank's revenue and results by operating segment for the year ended December 31, 2012:

	Consumer banking	Wholesale banking	Investments and treasury	Property management	Total
	AED' 000	AED' 000	AED' 000	AED'000	AED' 000
Net interest and Islamic financing income	2,335,497	1,465,602	1,282,445	123,687	5,207,231
Non-interest income	693,537	431,416	133,266	129,698	1,387,917
Operating expenses	(1,314,081)	(525,997)	(159,602)	(69,584)	(2,069,264)
Operating profit before impairment allowances	1,714,953	1,371,021	1,256,109	183,801	4,525,884
Impairment (allowances)/recoveries	(1,479,004)	(211,892)	2,514	(21,337)	(1,709,719)
Profit before taxation	235,949	1,159,129	1,258,623	162,464	2,816,165
Overseas income tax expense	-	(5,830)	-	-	(5,830)
Net profit for the year	235,949	1,153,299	1,258,623	162,464	2,810,335
Capital expenditure					199,358
As at December 31, 2012					
Segment assets	60,847,483	70,449,477	48,958,232	540,531	180,795,723
Segment liabilities	29,946,977	51,180,230	74,946,671	14,256	156,088,134

38 Operating segments (continued)

The following is an analysis of the Bank's revenue and results by operating segment for the year ended December 31, 2011:

	Consumer banking	Wholesale banking	Investments and treasury	Property management	Total
	AED' 000	AED' 000	AED' 000	AED'000	AED' 000
Net interest and Islamic financing income	2,279,778	1,238,586	1,058,061	105,674	4,682,099
Non-interest income	635,521	344,750	290,792	116,250	1,387,313
Operating expenses	(1,337,475)	(497,414)	(156,065)	(72,271)	(2,063,225)
Operating profit before impairment allowances	1,577,824	1,085,922	1,192,788	149,653	4,006,187
Impairment allowances	(1,227,230)	(895,130)	(218,028)	(57,440)	(2,397,828)
Share of (loss)/profit of associates	(22,718)	181,376	-	-	158,658
Profit before taxation	327,876	372,168	974,760	92,213	1,767,017
Overseas income tax expense	-	(36,221)	-	-	(36,221)
Profit for the year	327,876	335,947	974,760	92,213	1,730,796
Net gain on sale of investment in associate	-	1,314,315	-	-	1,314,315
Net profit for the year	327,876	1,650,262	974,760	92,213	3,045,111
Capital expenditure					220,605
As at December 31, 2011					
Segment assets	64,430,343	71,728,699	47,161,658	404,930	183,725,630
Segment liabilities	27,814,765	50,886,621	82,073,228	873,493	161,648,107

38 Operating segments (continued)

For the purpose of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments

Other disclosures

The following is the analysis of the total operating income of each segment between income from external parties and inter-segment.

2012	**Consumer banking**	**Wholesale banking**	**Investments and treasury**	**Property management**	**Total**
	AED' 000	**AED' 000**	**AED' 000**	**AED'000**	**AED' 000**
External	**4,435,438**	**2,602,597**	**(572,585)**	**129,698**	**6,595,148**
Inter-segment	**(1,406,404)**	**(705,579)**	**1,988,296**	**123,687**	**-**

2011	Consumer banking	Wholesale banking	Investments and treasury	Property management	Total
	AED' 000	AED' 000	AED' 000	AED'000	AED' 000
External	4,636,113	2,019,280	(701,425)	115,444	6,069,412
Inter-segment	(1,720,814)	(435,944)	2,050,278	106,480	-

38 Operating segments (continued)

Geographical information

The Bank operates in two principal geographic areas i.e. Domestic and International. The United Arab Emirates is designated as Domestic area which represents the operations of the Bank that originates from the U.A.E. branches and subsidiaries; and International area represents the operations of the Bank that originates from its branches in India, Jersey and through its subsidiaries and associates outside U.A.E. The Bank's operations and information about its segment assets (non-current assets excluding investments in associates and other financial instruments) by geographical location are detailed as follows:

	Domestic		International	
	2012	2011	**2012**	2011
	AED'000	AED'000	**AED'000**	AED'000
Income				
Net interest and Islamic financing income	**5,180,704**	4,580,144	**26,527**	101,955
Non-interest income	**1,383,248**	1,436,432	**4,669**	(49,119)
Share of (loss)/profit of associates	**-**	(22,718)	**-**	181,376
Net gain from sale of investment in associate	**-**	-	**-**	1,314,315

	Domestic		International	
Non-current assets	**2012**	2011	**2012**	2011
	AED'000	AED'000	**AED'000**	AED'000
Investment properties	**529,395**	396,912	**-**	-
Property and equipment, net	**844,256**	958,491	**5,678**	6,027
Intangible assets	**92,126**	123,653	-	-

39 Financial instruments

39.1 Categories of financial instruments

The following tables analyse the Bank's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

December 31, 2012	**Held-for-trading AED'000**	**Hedging derivatives AED'000**	**Available-for-sale AED'000**	**Amortised cost AED'000**	**Total AED'000**
Assets					
Cash and balances with Central Banks	**-**	**-**	**-**	**9,337,874**	**9,337,874**
Deposits and balances due from banks	**-**	**-**	**-**	**16,517,118**	**16,517,118**
Trading securities	**641,877**	**-**	**-**	**-**	**641,877**
Derivative financial instruments	**4,376,874**	**616,352**	**-**	**-**	**4,993,226**
Investment securities	**-**	**-**	**18,712,916**	**-**	**18,712,916**
Loans and advances, net	**-**	**-**	**-**	**123,195,295**	**123,195,295**
Other assets	**-**	**-**	**-**	**5,583,486**	**5,583,486**
Total financial assets	**5,018,751**	**616,352**	**18,712,916**	**154,633,773**	**178,981,792**
Liabilities					
Due to banks	**-**	**-**	**-**	**4,411,271**	**4,411,271**
Derivative financial instruments	**4,349,764**	**418,574**	**-**	**-**	**4,768,338**
Deposits from customers	**-**	**-**	**-**	**109,216,925**	**109,216,925**
Euro commercial paper	**-**	**-**	**-**	**4,557,108**	**4,557,108**
Borrowings	**-**	**-**	**-**	**26,139,647**	**26,139,647**
Other liabilities	**-**	**-**	**-**	**5,490,074**	**5,490,074**
Total financial liabilities	**4,349,764**	**418,574**	**-**	**149,815,025**	**154,583,363**

December 31, 2011	Held-for-trading AED'000	Hedging derivatives AED'000	Available-for-sale AED'000	Amortised cost AED'000	Total AED'000
Assets					
Cash and balances with Central Banks	-	-	-	6,629,945	6,629,945
Deposits and balances due from banks	-	-	-	20,839,932	20,839,932
Trading securities	15,755	-	-	-	15,755
Derivative financial instruments	4,376,568	468,196	-	-	4,844,764
Investment securities	-	-	15,052,103	-	15,052,103
Loans and advances, net	-	-	-	124,754,737	124,754,737
Other assets	-	-	-	9,631,721	9,631,721
Total financial assets	4,392,323	468,196	15,052,103	161,856,335	181,768,957
Liabilities					
Due to Central Banks	-	-	-	48,100	48,100
Due to banks	-	-	-	3,090,386	3,090,386
Derivative financial instruments	4,348,242	473,326	-	-	4,821,568
Deposits from customers	-	-	-	109,170,825	109,170,825
Euro commercial paper				716,652	716,652
Borrowings	-	-	-	31,897,009	31,897,009
Other liabilities	-	-	-	9,702,849	9,702,849
Total financial liabilities	4,348,242	473,326	-	154,625,821	159,447,389

39 Financial instruments

39.2 Fair value measurements recognised in the statement of financial position

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book value under the historical cost method and fair value estimates. The accounting policy on fair valuation of financial instruments is set out in Note 3.13

IFRS 7- Financial Instruments: Disclosures specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. IFRS 7 specifies the following fair value hierarchy:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

December 31, 2012	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Financial assets			
Trading securities	**641,877**	**-**	**-**
Derivative financial instruments	**-**	**4,993,226**	**-**
Available-for-sale financial assets			
Quoted	**18,434,480**	**-**	**-**
Unquoted	**-**	**-**	**278,436**
Total	**19,076,357**	**4,993,226**	**278,436**
Financial liabilities			
Derivative financial instruments	**-**	**4,768,338**	**-**

39 Financial instruments

39.2 Fair value measurements recognised in the statement of financial position (continued)

December 31, 2011	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Financial assets			
Trading securities	15,755	-	-
Derivative financial instruments	-	4,844,764	-
Available-for-sale financial assets			
Quoted	14,789,081	-	-
Unquoted	-	-	263,022
Total	14,804,836	4,844,764	263,022
Financial liabilities			
Derivative financial instruments	-	4,821,568	-

The Bank's OTC derivatives in the Trading Book are typically classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 available for sale investments is as follows:

	2012 **AED'000**	2011 AED'000
As at January 1,	**263,022**	224,505
Acquisitions	**17,245**	14,991
Matured during the year	**(4,593)**	-
Adjustment through comprehensive income	**10,648**	33,777
Transfer into Level 3 securities	**2,057**	29,749
Impairment loss	**(9,943)**	(40,000)
As at December 31,	**278,436**	263,022

No gains were recognized in the consolidated income statements of 2012 and 2011 on Level 3 investments which matured.

40 Risk Management

Ultimate responsibility for setting out risk appetite and effective management of risk rest with the Board. This is managed through a number of Board level committees; namely Board Risk & Credit Committee (BRCC) and Board Audit & Compliance Committee (BACC), which ensure that risk taking authority and policies are cascaded down from the Board to the appropriate business units.

The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership for the enforcement of risk strategy and internal control directives laid down by the Board and Board Committees.

The Management level committees also actively manage risk particularly the Assets and Liabilities Management Committee; Management Risk & Credit Committee (MRCC) and Management Recoveries Committee. The Risk Management function headed by the Bank's Chief Risk Officer reports independently to the Board Risk and Credit Committee. The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function exercises control over credit, market, short-term liquidity, operational and compliance risk.

The Audit & Compliance Committee provides assistance to the Board to fulfill its duties to ensure and oversee the Bank's financial statements, independence and performance of the Bank's external and internal auditors, compliance with legal and regulatory requirements and internal policies and internal control over financial reporting.

The Internal Audit Group (IAG) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of ADCB's risk management, control and governance processes. The IAG reports directly to the BACC. The IAG consists of a team of auditors, whose tasks are, among other things, to evaluate the quality of ADCB's lending portfolio, controls in operational processes and the integrity of ADCB's information systems and databases. The IAG auditors, alongside the compliance department, also ensure that transactions undertaken by ADCB are conducted in compliance with applicable legal and regulatory requirements, and in accordance with ADCB's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

41 Credit Risk Management

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation.

ADCB's risk function follows below approaches for credit risk management, depending on the type of customer.

Individual account management – These accounts are managed by a relationship manager and a credit manager. This category includes the companies of wholesale banking and financial institutions. Risk management is conducted through expert analysis backed up by tools to support decision-making based on internal models of risk assessment.

Portfolio Management - This category generally includes individuals, sole proprietorships and partnerships and certain smaller SME's. Management of these risks is based on internal models of assessment and score card based decisions, complemented by internal portfolio analytics.

Management of Credit Risk :

The Bank controls credit risk by aggregating and monitoring credit exposures (both direct and indirect exposures) on the loans and advances book , investment securities, non-funded exposures and due from banks. The Bank sets transaction limits for specific counterparties and continually assesses the creditworthiness of counterparties.

The Bank sets and monitors country exposure and uses its own internal rating models for assigning customer ratings which measures the degree of risk of a customer. Each rating corresponds to a certain probability of default. The Bank has various internal rating models for different customer segments.

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 counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

41.1 Analysis of the ADCB's maximum exposure to credit risk before credit risk mitigants

The following table presents the maximum exposure at 31st December 2012 and 2011 to credit risk of balance sheet and off-balance sheet financial instruments, before taking account of any credit risk mitigants and after allowance for impairment and netting where appropriate.

The maximum exposure to credit risk for on balance sheet items is their carrying value. For financial guarantees recorded off balance sheet, the maximum exposure to credit risk is the maximum amount that ADCB would have to pay if the guarantees were to be called upon. For loan and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The analysis of credit risk under this section includes only financial assets subject to credit risk. They exclude other financial assets, such as trading portfolio which are exposed to market risk. The nominal value of off-balance sheet credit related instruments is also shown, where appropriate.

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

41 Credit Risk Management (continued)

41.1 Analysis of ADCB's maximum exposure to credit risk before credit risk mitigants (continued)

Whilst the Bank's maximum exposure to credit risk is the carrying value of the assets or, in the case of off-balance sheet items, the amount guaranteed, committed, or endorsed, in most cases the likely exposure is far less due to collateral held, and other credit risk mitigants and other actions taken to manage the Bank's exposure.

	2012			2011		
	Carrying value	**Off balance sheet items**	**Maximum credit exposure**	Carrying value	Off balance sheet items	Maximum credit exposure
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Deposits and balances due from banks	**16,517,118**	**-**	**16,517,118**	20,839,932	-	20,839,932
Derivative financial instruments	**4,993,226**	**-**	**4,993,226**	4,844,764	-	4,844,764
Investment securities	**18,712,916**	**212,764**	**18,925,680**	15,052,103	230,009	15,282,112
Loans and advances, net	**123,195,295**	**-**	**123,195,295**	124,754,737	-	124,754,737
Other assets	**5,925,962**	**-**	**5,820,316**	10,021,494	-	9,862,847
Guarantees	**-**	**12,250,409**	**11,955,291**	-	9,806,027	9,540,991
Letters of credit	**-**	**6,251,347**	**6,212,827**	-	4,049,791	4,009,435
Irrevocable commitments to extend credit	**-**	**3,210,238**	**3,210,238**	-	5,688,356	5,688,356
Others	**-**	**55,095**	**55,095**	-	55,095	55,095
Total	**169,344,517**	**21,979,853**	**190,885,086**	175,513,030	19,829,278	195,342,308

41 Credit Risk Management (continued)

41.2 Concentration of Credit Risk

Concentration of credit risk arises when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or economic sectors that would impact their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below are based on the location of the counterparty or customer or the economic activity in which they are engaged.

(a) Credit risk concentration by geographical sector

December 31, 2012	Domestic (U.A.E.) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	U.S.A. AED'000	Rest of the world AED'000	Total AED'000
Assets								
Deposits and balances due from banks	**7,496,926**	**4,075,071**	**1,490**	**996,367**	**3,824,689**	**54,327**	**68,248**	**16,517,118**
Derivative financial instruments	**2,756,078**	**2,096**	**-**	**107,961**	**1,818,868**	**281,859**	**26,364**	**4,993,226**
Investment securities	**8,761,280**	**2,173,274**	**-**	**1,278,835**	**3,304,372**	**2,903,034**	**292,121**	**18,712,916**
Loans and advances, net	**119,241,363**	**1,665,743**	**134,368**	**1,066,749**	**100,064**	**210**	**986,798**	**123,195,295**
Other assets	**5,271,202**	**322,303**	**3**	**111,205**	**7**	**-**	**115,595**	**5,820,315**
Total assets	**143,526,849**	**8,238,487**	**135,861**	**3,561,117**	**9,048,000**	**3,239,430**	**1,489,126**	**169,238,870**
Commitment and contingent liabilities	**24,849,999**	**636,812**	**143,804**	**961,079**	**1,212,360**	**686,604**	**365,245**	**28,855,903**

December 31, 2011	Domestic (U.A.E.) AED'000	Other G.C.C. countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	U.S.A. AED'000	Rest of the world AED'000	Total AED'000
Assets								
Deposits and balances due from banks	12,966,958	2,539,538	641	1,045,915	4,028,500	258,106	274	20,839,932
Derivative financial instruments	2,718,518	-	13,155	123,143	1,496,641	465,026	28,281	4,844,764
Investment securities	7,160,962	1,999,370	-	1,213,864	2,317,999	2,264,246	95,662	15,052,103
Loans and advances, net	119,779,990	1,860,287	9,145	1,108,616	359,174	375	1,637,150	124,754,737
Other assets	8,607,808	143,618	382	27,198	304	1,083,537	-	9,862,847
Total assets	151,234,236	6,542,813	23,323	3,518,736	8,202,618	4,071,290	1,761,367	175,354,383
Commitment and contingent liabilities	22,106,426	331,718	225,549	1,789,282	1,724,751	145,214	95,125	26,418,065

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

41 Credit Risk Management (continued)

41.2 Concentration of Credit Risk (continued)

(b) Credit risk concentration by economic sector

The economic activity sector composition of the loans and advances portfolio is as follows:

	As at December 31, 2012			As at December 31, 2011		
	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
Economic sector						
Agriculture	**10,803**	**-**	**10,803**	9,084	-	9,084
Energy	**9,863,141**	**423,428**	**10,286,569**	10,864,758	362,316	11,227,074
Trading	**983,414**	**39,633**	**1,023,047**	846,973	15,080	862,053
Development & construction	**20,005,790**	**267,207**	**20,272,997**	28,580,804	224,245	28,805,049
Real estate investment	**30,526,476**	**61,144**	**30,587,620**	19,716,776	191,045	19,907,821
Transport	**1,275,907**	**479,606**	**1,755,513**	1,365,925	512,684	1,878,609
Personal – retail	**17,622,127**	**10,245**	**17,632,372**	16,939,914	13,362	16,953,276
Personal – collateralised	**11,914,549**	**281,010**	**12,195,559**	16,190,310	370,741	16,561,051
Government	**3,149,773**	**-**	**3,149,773**	2,855,458	-	2,855,458
Financial institutions (*)	**8,113,300**	**1,583,274**	**9,696,574**	7,681,348	1,315,783	8,997,131
Manufacturing	**1,408,454**	**103,717**	**1,512,171**	2,124,486	123,940	2,248,426
Services	**19,834,167**	**1,701,850**	**21,536,017**	18,009,069	2,152,512	20,161,581
	124,707,901	**4,951,114**	**129,659,015**	125,184,905	5,281,708	130,466,613
Less: Allowance for impairment			**(6,463,720)**			(5,711,876)
Total			**123,195,295**			124,754,737

(*) includes investment companies.

During the year, economic sector composition was revisited for certain loans and advances based on the purpose of use and main line of business of the borrower. Accordingly, economic sector of these loans and advances were reclassified for prior year financial statements to conform to the current year's presentation. Also, the management has decided to consolidate contractor finance with development & construction as both the economic sectors carry the same risk profile.

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

41 Credit Risk Management (continued)

41.2 Concentration of Credit Risk (continued)

(b) Credit risk concentration by economic sector (continued)

The economic sector composition of other exposures is as follows:

December 31, 2012	**Commercial and business AED'000**	**Personal AED'000**	**Public sector AED'000**	**Government AED'000**	**Banks and financial institutions AED'000**	**Total AED'000**
Assets						
Deposits and balances due from banks	-	-	-	-	**16,517,118**	**16,517,118**
Derivative financial instruments	**2,559,346**	**50,694**	-	-	**2,383,186**	**4,993,226**
Investment securities	**1,598,117**	-	**5,082,992**	**4,087,349**	**7,944,458**	**18,712,916**
Other assets	**4,733,367**	**169,834**	**743,694**	**18,328**	**155,093**	**5,820,316**
Total assets	**8,890,830**	**220,528**	**5,826,686**	**4,105,677**	**26,999,855**	**46,043,576**
Commitment and contingent liabilities	**14,004,977**	**6,400,616**	**2,313,485**	**1,697,418**	**4,439,407**	**28,855,903**

December 31, 2011	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
Assets						
Deposits and balances due from banks	-	-	-	-	20,839,932	20,839,932
Derivative financial instruments	2,586,055	128,807			2,129,902	4,844,764
Investment securities	1,172,418	-	4,687,545	3,231,030	5,961,110	15,052,103
Other assets	9,329,350	217,459	245,777	10,474	59,787	9,862,847
Total assets	13,087,823	346,266	4,933,322	3,241,504	28,990,731	50,599,646
Commitment and contingent liabilities	14,424,855	7,090,863	350,744	402,596	4,149,007	26,418,065

As at reporting date, 20 customers constitute 46.53% of the net loans and advances (December 31, 2011 – 45 %).

41 Credit Risk Management (continued)

41.3 Credit Risk Management Overview

Organisational Framework

The risk management structure of the Bank is clearly established with well defined roles and responsiblities as explained in Note 40.

The committees responsible for managing credit risk are Management Risk & Credit Committee and Management Recoveries Committee. ADCB risk management practices and strategies are an integral part of business planning and budgeting process. All risk management areas are centralised under the Credit and Risk Group.

The Board Risk and Credit Committee (BRCC) is responsible for sanctioning high value credits and is responsible for the approval of credit policies and processes in line with growth, risk management and strategic objectives. In addition, the Bank manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Bank's credit processes are undertaken by the Internal Audit and Compliance divisions.

41.4 Credit risk measurement and mitigation policies

Loans and advances to customers is the main source of credit risk to the Bank although ADCB can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Bank's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data. The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties (Note 41.6).

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Collateral

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The principal collateral types for loans and advances are:

- Cash and marketable securities
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Guarantees.

41 Credit Risk Management (continued)

41.4 Credit risk measurement and mitigation policies (continued)

Collateral (continued)

The estimated fair value of collateral and other security enhancements held against loans and advances to customers and banks for the year ended December 31, 2012 was AED 96,188,466 thousand (December 31, 2011: AED 83,739,802 thousand).

Collateral held as security against impaired loans primarily relates to commercial and residential property and securities. Where the estimated fair value of collateral held exceeds the outstanding loan, any excess is paid back to the customers and is not available for offset against other loans.

Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. positive fair value of assets), which in relation to derivatives is a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Bank's market transactions on any single day.

Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a year, as it is affected by each transaction subject to the arrangement.

41.5 Portfolio monitoring & identifying credit risk loans

Credit Risk Management is actively involved in identifying and monitoring credit risk loans. It monitors the portfolio through system generated MIS and periodic reviews giving due consideration to industry/general economic trends, market feed back, and media reports.

41 Credit Risk Management (continued)

41.5 Portfolio monitoring & identifying credit risk loans (continued)

Within the retail portfolios comprising of homogeneous assets, statistical techniques are deployed to monitor potential weaknesses within a particular portfolio. The approach is consistent with the Bank's policy of raising a specific impairment allowance as soon as objective evidence of impairment is identified. Retail accounts are classified according to specified categories of arrears status (days past due buckets), which reflects the level of contractual payments which are overdue on a loan.

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement. In the event, where a decision is taken to write off a loan, the account is moved to legal recovery function. However, in certain cases, an account may be charged off directly from a performing status, such as in the case of insolvency or death.

In the Wholesale Banking portfolio, the Bank will more frequently participate in debt restructuring agreements as part of the business support process. Debt restructuring agreements may include actions to facilitate recovery of the principal and interest outstanding and may include rate negotiation, relaxing payment schedules, etc.

Exposure to Credit Risk by days past due

The Bank's risk classification of loans and advances which is in adherence with the recommendations of Central Bank of United Arab Emirates guidelines is as follows:

Risk Category	
Neither past due nor impaired	Up to 30 days past due
Overdue but not impaired loans	Between 31 and 90 days past due
Past due or impaired	Over 91 days past due

The classification of loans and advances by days past due are as follows:

	2012 **AED'000**	2011 AED'000
Neither past due nor impaired	**118,710,300**	114,239,761
Overdue but not impaired loans	**4,009,770**	10,201,566
Past due or impaired		
- Past due and impaired	**6,938,945**	6,025,286
	129,659,015	130,466,613
Less: Allowance for impairment	**(6,463,720)**	(5,711,876)
	123,195,295	124,754,737

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

41 Credit Risk Management (continued)

41.5 Portfolio monitoring & identifying credit risk loans (continued)

Analysis of the age of overdue but not impaired loans as at the end of the reporting period is as follows:

	2012	2011
	AED'000	AED'000
31 – 60 days	**3,012,195**	3,102,142
61- 90 days	**997,575**	7,099,424
Total overdue but not impaired loans	**4,009,770**	10,201,566

Loans and advances include a loan to the Government of Abu Dhabi ("Government") of AED 449,569 thousand (December 31, 2011 – AED 458,940 thousand). This loan arose as a result of the Government acquiring certain non-performing loans in previous years and were indemnified by the Government through a guarantee. The Bank has an equal amount of long term deposit against this loan (Note 17).

41 Credit Risk Management (continued)

41.6 Exposure to Credit Risk by Internal Risk Grades

The Bank uses internal grading system which employs ten grades that categorise the Bank's wholesale and high net worth (HNW) customers based on various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis etc. Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1-7 are assigned to performing customers or accounts while credit grades 8 – 10 are assigned to non-performing or defaulting customers.

Credit ratings are used by the Bank to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. Retail customers or individual borrowers are not assigned a credit rating under this structure. However , Retail Banking uses behaviour scoring for its customers.

Our internal credit grade is not intended to replicate external credit grades but as factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

The following table represents credit quality of loans and advances that are neither past due nor impaired as at December 31:

	2012	2011
Internal risk grades	**AED'0000**	AED'000
Grades 1 to 4	**27,032,118**	26,484,039
Grades 5 to 6	**62,095,009**	48,180,536
Grade 7	**10,797,095**	23,304,288
Ungraded – Retail loans	**18,786,078**	16,270,898
	118,710,300	114,239,761

The following table represents credit quality of derivative financial assets as at December 31:

	2012	2011
Internal risk grades	**AED'0000**	AED'000
Grades 1 to 4	**4,290,138**	3,835,554
Grades 5 to 6	**495,083**	566,776
Grade 7	**125,245**	228,256
Ungraded	**82,760**	214,178
	4,993,226	4,844,764

41 Credit Risk Management (continued)

41.7 External credit ratings of investment securities

The tables below presents the external credit ratings of the Bank's deposits and balances due from banks, trading and available for sale investment securities based on Moody's rating scale. Wherever Moody's ratings are not available comparable Standard & Poor's equivalent ratings scale is used.

	2012			2011		
Ratings	**Deposits and balances due from banks AED'000**	**Held for trading securities AED'000**	**Available for sale investments AED'000**	Deposits and balances due from banks AED'000	Held for trading securities AED'000	Available for sale investments AED'000
Aaa to Aa 3	**1,421,063**	**-**	**6,249,628**	1,911,860	8,236	6,513,130
A 1 to A 3	**5,861,934**	**36,276**	**5,430,118**	9,499,212	7,519	5,059,478
Baa1 to Ba 3	**2,619,363**	**68,142**	**3,721,130**	2,653,032	-	1,679,903
B1 to B 3	**2,675,093**	**-**	**1,143,907**	3,933,751	-	706,829
Not rated	**3,939,665**	**12,652**	**2,168,133**	2,842,077	-	1,092,763
	16,517,118	**117,070**	**18,712,916**	20,839,932	15,755	15,052,103

41.8 Identification of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Bank's asset such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both a specific asset and collective level.

41 Credit Risk Management (continued)

41.9 Measurement of impairment

Individually assessed loans and advances

Impairment losses for individually assessed loans are determined by an evaluation of objective evidence relating to each exposure on a case-by-case basis. This procedure is applied to all classified corporate, commercial, high net worth individual loans, bank loans and advances which are individually significant accounts or are not subject to a portfolio-based-approach. Specific factors considered by management when determining allowance for impairment on individual loans and advances which are significant includes the Bank's aggregate exposure to the customer, viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations, the amount and timing of expected receipts and recoveries, likely dividend available on liquidation or bankruptcy, extent of other creditors' commitments ranking ahead of, or pari passu with the Bank, likelihood of other creditors continuing to support the company, realisable value of security (or other credit mitigants) and likelihood of successful repossession, and likely deduction of any costs involved in recovery of amounts outstanding.

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows excluding future credit losses but including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate, when it became delinquent under the contract. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line - impairment allowances.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities, regular valuation of the collateral and consideration of its enforceability. Impaired loans continue to be classified as impaired unless they are fully current and the collection of scheduled interest and principal is considered probable.

Impairment is assessed on a collective basis in two circumstances:

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

The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans – All unsecured loans falling under similar overdue categories are assumed to carry similar credit risk and an allowance for impairment is taken on a portfolio basis. In cases of secured loans where the Bank possesses collateral (mortgage/auto loans) the realisable value of the collateral is taken into consideration in assessing the allowance for impairment.

41 Credit Risk Management (continued)

41.9 Measurement of impairment (continued)

Collectively assessed loans and advances

Other performing loans – The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the reproting date.

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

The collective impairment allowance is determined after taking into account factors such as historical loss experience in portfolios of similar credit risk characteristics, estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against individual loans and management's judgement based on experience as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

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

Incurred but not yet identified loss on individual loans

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loan rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the reporting date, which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual loans within the group of the customer, those loans are removed for the purpose of collective impairment and assessed on an individual basis for impairment.

41 Credit Risk Management (continued)

41.9 Measurement of impairment (continued)

Homogenous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogenous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on individual basis when individual loans are written off, at which point they are removed from the group.

Impairment of retail loans is calculated by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

Write-off of loans and advances

Loan and advances (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realizing the security have been received.

Movement of the individual and collective impairment allowance on loans and advances

	2012			2011		
	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**	Individual Impairment AED'000	Collective impairment AED'000	Total AED'000
At January 1,	**3,652,804**	**2,059,072**	**5,711,876**	4,653,146	1,643,291	6,296,437
Charge for the year	**1,676,510**	**197,613**	**1,874,123**	1,886,939	416,167	2,303,106
Recoveries during the year	**(183,015)**	**-**	**(183,015)**	(220,746)	-	(220,746)
Net charge for the year	**1,493,495**	**197,613**	**1,691,108**	1,666,193	416,167	2,082,360
Discount unwind	**(129,920)**	**-**	**(129,920)**	(177,216)	-	(177,216)
Net amounts written-off	**(809,111)**	**-**	**(809,111)**	(2,487,492)	-	(2,487,492)
Currency translation	**(131)**	**(102)**	**(233)**	(1,827)	(386)	(2,213)
Balance at December 31,	**4,207,137**	**2,256,583**	**6,463,720**	3,652,804	2,059,072	5,711,876

41 Credit Risk Management (continued)

41.9 Measurement of impairment (continued)

Reversal of impairment

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

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Bank's independent credit assessment. Credit risk in derivatives is mitigated through limit control and master netting agreements as explained in Note 41.4.

Off-balance sheet

The Bank applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

42 Interest rate risk framework, measurement and monitoring

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Bank's Treasury division, which uses linear derivative instruments to manage the overall position arising from the Bank's interest bearing financial instruments.

Financial assets and liabilities exposed to interest rate risk are financial assets and financial liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Bank's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, short and medium term borrowings, capital notes, long term borrowings and mandatory convertible securities fall under this category.

Financial assets that are not subject to any fair value or cash flow interest rate risk mainly comprise of investments in equity instruments.

The effective interest rate (effective yield) of a monetary financial instrument is the rate of interest that, when used in a present value calculation, would result in the carrying amount of the instrument being equal to its future cash flows. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The off balance sheet gap represents the net notional amounts of the off balance sheet financial instruments, such as interest rate swaps and currency swaps which are used to manage the interest rate risk.

The Bank uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by the Asset and Liability Committee (ALCO). Since most of the Bank's financial assets and liabilities accrue a floating rate of interest, such as deposits and loans generally re-pricing simultaneously, this provides a natural hedge which reduces exposure to changing levels of interest rates. Moreover, a majority of the Bank's assets and liabilities re-price with at least a yearly frequency or more frequently, thereby further limiting interest rate risk.

42 Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest rate sensitivity position based on contractual repricing arrangements at December 31, 2012 was as follows:

December 31, 2012	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with Central Banks	-	600,000	1,900,000	-	-	6,837,874	9,337,874
Deposits and balances due from banks	15,447,397	726,328	100,429	-	-	242,964	16,517,118
Trading Investments	-	-	-	12,652	104,418	524,807	641,877
Derivative financial instruments	3,983,884	579,861	28,573	84,564	3,105	313,239	4,993,226
Investment securities	1,085,149	704,201	254,421	10,467,236	5,925,105	276,804	18,712,916
Loans and advances, net	88,323,143	16,359,517	1,361,422	5,454,696	20,267,701	(8,571,184)	123,195,295
Investments in associates	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	529,395	529,395
Other assets	-	-	-	-	-	5,925,962	5,925,962
Property and equipment, net	-	-	-	-	-	849,934	849,934
Intangibles assets	-	-	-	-	-	92,126	92,126
Total assets	108,839,573	18,969,907	3,644,845	16,019,148	26,300,329	7,021,921	180,795,723
Liabilities							
Due to Banks	4,169,742	241,529	-	-	-	-	4,411,271
Derivative financial instruments	4,178,403	330,097	2,378	64,315	3,105	190,040	4,768,338
Deposits from customers	82,895,933	17,490,929	6,075,092	114,857	1,151,597	1,488,517	109,216,925
Euro commercial paper	1,801,120	1,661,344	1,094,644	-	-	-	4,557,108
Borrowings	4,758,649	1,602,726	3,712,237	5,740,469	10,325,566	-	26,139,647
Other liabilities	-	-	-	-	-	6,994,845	6,994,845
Equity	-	-	-	-	-	24,707,589	24,707,589
Total liabilities and equity	97,803,847	21,326,625	10,884,351	5,919,641	11,480,268	33,380,991	180,795,723
On-balance sheet gap	11,035,726	(2,356,718)	(7,239,506)	10,099,507	14,820,061	(26,359,070)	-
Off-balance sheet gap	(564,767)	(4,095,820)	(1,110,127)	(1,218,084)	6,988,798	-	
Total interest rate sensitivity gap	10,470,959	(6,452,538)	(8,349,633)	8,881,423	21,808,859	(26,359,070)	-
Cumulative interest rate sensitivity gap	10,470,959	4,018,421	(4,331,212)	4,550,211	26,359,070	-	-

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

42 Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2011 was as follows:

December 31, 2011	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with Central Banks	-	100,000	900,000	-	-	5,629,945	6,629,945
Deposits and balances due from banks	20,216,822	117,967	239,204	-	-	265,939	20,839,932
Trading securities	15,755	-	-	-	-	-	15,755
Derivative financial instruments	4,038,716	632,610	8,064	25,703	29,656	110,015	4,844,764
Investment securities	1,209,355	693,665	380,072	3,778,978	8,640,722	349,311	15,052,103
Loans and advances, net	92,191,867	4,088,241	8,368,383	3,595,566	22,222,555	(5,711,875)	124,754,737
Investment in associates	-	-	-	-	-	81,817	81,817
Investment properties	-	-	-	-	-	396,912	396,912
Other assets	-	-	-	-	-	10,021,494	10,021,494
Property and equipment, net	-	-	-	-	-	964,518	964,518
Intangibles assets	-	-	-	-	-	123,653	123,653
Total assets	117,672,515	5,632,483	9,895,723	7,400,247	30,892,933	12,231,729	183,725,630
Liabilities							
Due to Central Banks	13,840	-	-	-	-	34,260	48,100
Due to banks	2,641,191	295,421	3,178	-	-	150,596	3,090,386
Derivative financial instruments	4,316,992	351,532	728	285	29,657	122,374	4,821,568
Deposits from customers	76,528,056	20,430,958	9,553,519	2,308,872	4,361	345,059	109,170,825
Euro commercial paper	620,787	95,865	-	-	-	-	716,652
Borrowings	14,730,096	337,916	102,844	5,241,511	11,041,857	442,785	31,897,009
Other liabilities	-	-	-	-	-	11,903,567	11,903,567
Equity	-	-	-	4,000,000	-	18,077,523	22,077,523
Total liabilities and equity	98,850,962	21,511,692	9,660,269	11,550,668	11,075,875	31,076,164	183,725,630
On-balance sheet gap	18,821,553	(15,879,209)	235,454	(4,150,421)	19,817,058	(18,844,435)	-
Off-balance sheet gap	3,270,338	(3,233,608)	(36,730)	-	-	-	-
Total interest rate sensitivity gap	22,091,891	(19,112,817)	198,724	(4,150,421)	19,817,058	(18,844,435)	-
Cumulative interest rate sensitivity gap	21,168,791	2,979,074	3,177,798	(972,623)	18,844,435	-	-

43 Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Liquidity risk management process

The assets and liabilities committee (ALCO) of the Bank sets and monitors liquidity ratio and regularly revises and calibrates the liquidity management policies to ensure that the Bank is in a position to meet its obligations as they fall due.

The Bank's liquidity management process, as carried out within the bank and monitored by Bank's Treasury includes:

- Monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Bank can meet the required outflows;
- Regular liquidity stress testing conducted under a variety of scenarios covering both normal and more severe market conditions with well defined triggers and suggested actions; and
- Ensuring regular compliance with the liquidity ratios such as Advance to Stable Resources Ratio stipulated by the Central Bank of UAE. Whilst the Central Bank of UAE allows a maximum of 1:1, the Bank has set a stricter internal ratio.

  - the amount of loans and advances together with the amount of inter-bank placements with a remaining life of more than three months and;
  - the amount of stable resource comprising of free own funds with a remaining life of more than six months, stable customer deposits and standby liquidity facilities.

The above definition is in line with the Central Bank of UAE definitions of the Advances to Stable Resources Ratio.

Monitoring composition of funding sources at granular level has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as percentage of the total liability position. Some of the ratios for monitoring are as follows:

- Euro Commercial Paper to Total Liabilities
- Wholesale Funds to Total Liabilities
- Money Market Deposits to Total Liabilities
- Core Funds to Total Liabilities
- Non-Core Funds to Total Liabilities

43 Liquidity risk framework, measurement and monitoring (continued)

Tools for liquidity management

The Bank through its Treasury ensures that it has access to diverse sources of funding ranging from local customer deposits from both its retail and corporate customers to long term funding such as debt securities and subordinated liabilities.

Whilst the Bank's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities which increase the liquidity risk of the Bank. Treasury manages this risk by:

- Diversification of funding sources and balancing between long term and short term funding sources through borrowing under its Un-secured notes issue programs;
- Monitoring the stickiness of liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- Investing in various short-term or medium term but highly marketable assets such as inter-bank deposits, certificate of deposit with Central Bank, investment grade bonds that can be repurchased at short notices, etc.

Further, the Bank also has the following facilities from UAE's Central Bank to manage its liquidity risk during critical times.

- Overdraft facility against its cash reserves at overnight rate at a spread of 150 basis points;
- Overdraft facility beyond the cash reserves at overnight spread of 300 basis points; and
- Repo facility against identified investments securities bonds for a maximum period of seven days on renewable basis at overnight rate with a spread of 100 basis points for CDs and 150 basis points for other qualifying bonds.

None of the above Central Bank facilities are utilized and outstanding at the end of the year.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

43 Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2012 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	6,837,874	600,000	1,900,000	-	-	9,337,874
Deposits and balances due from banks	15,690,361	726,328	100,429	-	-	16,517,118
Trading Investments	641,877	-	-	-	-	641,877
Derivative financial instruments	265,252	60,585	115,962	677,968	3,873,459	4,993,226
Investment securities	623,394	789,295	254,422	11,120,669	5,925,136	18,712,916
Loans and advances, net	11,350,021	5,615,131	8,945,923	15,367,342	81,916,878	123,195,295
Investments in associates	-	-	-	-	-	-
Investment properties	-	-	-	-	529,395	529,395
Other assets	4,268,801	1,550,947	89,201	-	17,013	5,925,962
Property and equipment, net	-	-	-	-	849,934	849,934
Intangibles assets	-	-	-	-	92,126	92,126
Total assets	39,677,580	9,342,286	11,405,937	27,165,979	93,203,941	180,795,723
Liabilities and equity						
Due to banks	4,169,742	241,529	-	-	-	4,411,271
Derivative financial instruments	245,430	52,713	87,168	915,347	3,467,680	4,768,338
Deposits from customers	84,384,450	17,490,929	6,075,092	114,857	1,151,597	109,216,925
Euro commercial paper	1,661,344	1,094,644	1,801,120	-	-	4,557,108
Borrowings	2,478,511	1,602,726	3,712,237	5,933,660	12,412,513	26,139,647
Other liabilities	4,773,037	1,549,704	91,722	1,363	579,019	6,994,845
Equity	-	-	-	-	24,707,589	24,707,589
Total liabilities and equity	97,712,514	22,032,245	11,767,339	6,965,227	42,318,398	180,795,723
Liquidity gap	(58,034,934)	(12,689,959)	(361,402)	20,200,752	50,885,543	-
Cumulative liquidity gap	(58,034,934)	(70,724,893)	(71,086,295)	(50,885,543)	-	-

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

43 Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2011 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	5,629,945	100,000	900,000	-	-	6,629,945
Deposits and balances due from banks	20,482,761	117,967	239,204	-	-	20,839,932
Trading securities	15,755	-	-	-	-	15,755
Derivative financial instruments	163,737	62,278	50,356	730,871	3,837,522	4,844,764
Investment securities	436,016	36,946	678,800	5,189,068	8,711,273	15,052,103
Loans and advances, net	19,001,040	4,111,680	16,439,592	15,874,485	69,327,940	124,754,737
Investment in associates	-	-	-	-	81,817	81,817
Investment properties	-	-	-	-	396,912	396,912
Other assets	1,287,818	764,496	7,238,453	629,547	101,180	10,021,494
Property and equipment, net	-	-	-	-	964,518	964,518
Intangibles assets	-	-	-	20,328	103,325	123,653
Total assets	47,017,072	5,193,367	25,546,405	22,444,299	83,524,487	183,725,630
Liabilities and equity						
Due to Central Banks	48,100	-	-	-	-	48,100
Due to banks	837,000	325,061	2	127,082	1,801,241	3,090,386
Derivative financial instruments	199,202	70,591	66,971	796,759	3,688,045	4,821,568
Deposits from customers	76,546,074	20, 444,290	9,562,044	2,364,435	253,982	109,170,825
Euro commercial paper	620,787	95,865				716,652
Borrowings	6,174,626	-	3,380,989	9,868,150	12,473,244	31,897,009
Other liabilities	2,805,385	458,536	7,223,799	632,162	783,685	11,903,567
Equity	-	-	-	4,000,000	18,077,523	22,077,523
Total liabilities and equity	87,231,174	21,394,343	20,233,805	17,788,588	37,077,720	183,725,630
Liquidity gap	(40,214,102)	(16,200,976)	5,312,600	4,655,711	46,446,767	-
Cumulative liquidity gap	(40,214,102)	(56,415,078)	(51,102,478)	(46,446,767)	-	-

44 Foreign exchange risk framework, measurement and monitoring

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on daily basis. The analysis of currency concentrations of the Bank's statement of financial position are presented below:

Currency concentrations as at December 31, 2012

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	MYR '000	Other '000	Total AED'000
Assets								
Cash and balances with Central Banks	8,458,198	820,245	-	-	2	-	59,429	9,337,874
Deposits and balances due from banks	6,491,394	3,678,451	2,240,196	24,423	380,535	19	3,702,100	16,517,118
Trading securities	303,574	165,225	-	-	-	-	173,078	641,877
Derivative financial instruments	1,687,650	3,296,701	-	-	-	-	8,875	4,993,226
Investment securities	1,011,847	16,874,292	536,665	-	-	-	290,112	18,712,916
Loans and advances, net	108,507,076	12,431,945	41,302	-	425	-	2,214,547	123,195,295
Investment properties	529,395	-	-	-	-	-	-	529,395
Other assets	562,029	5,057,635	72,195	1,728	1,461	17,044	213,870	5,925,962
Property and equipment, net	844,256	-	-	-	-	-	5,678	849,934
Intangibles assets	92,126	-	-	-	-	-	-	92,126
Total assets	128,487,545	42,324,494	2,890,358	26,151	382,423	17,063	6,667,689	180,795,723
Liabilities and Equity								
Due to banks	3,660,868	585,813	644	-	69,543	-	94,403	4,411,271
Derivative financial instruments	1,673,363	3,081,585	-	-	-	-	13,390	4,768,338
Deposits from customers	76,904,028	23,682,768	1,008,000	24,327	1,617,502	14	5,980,286	109,216,925
Euro commercial paper	-	2,217,207	1,777,663	481,389	29,684	-	51,165	4,557,108
Borrowings	10,164,086	15,433,350	482,052	-	-	-	60,159	26,139,647
Other liabilities	2,077,387	4,640,721	36,570	1,032	1,730	-	237,405	6,994,845
Equity	23,896,177	733,221	54,127	-	-	-	24,064	24,707,589
Total liabilities and equity	118,375,909	50,374,665	3,359,056	506,748	1,718,459	14	6,460,872	180,795,723
Net balance sheet position	10,111,636	(8,050,171)	(468,698)	(480,597)	(1,336,036)	17,049	206,817	-
Net FX position on account of FX contracts	(4,341,149)	(438,372)	465,645	481,373	1,335,747	-	2,496,756	-
Net FX open position	5,770,487	(8,488,543)	(3,053)	776	(289)	17,049	2,703,573	-

Notes to the consolidated financial statements for the year ended December 31, 2012 (continued)

44 Foreign exchange risk framework, measurement and monitoring (continued)

Currency concentrations as at December 31, 2011

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	MYR '000	Other '000	Total AED'000
Assets								
Cash and balances with Central Banks	5,823,858	777,004	-	-	-	-	29,083	6,629,945
Deposits and balances due from banks	10,345,722	8,153,848	1,237,637	20,207	392,344	2,407	687,767	20,839,932
Trading securities	-	15,755	-	-	-	-	-	15,755
Derivative financial instruments	1,189,378	3,567,621	3,363	-	761	-	83,641	4,844,764
Investment securities	605,574	13,736,475	486,792	-	-	-	223,262	15,052,103
Loans and advances, net	107,599,141	14,305,494	9,530	-	21,067	-	2,819,505	124,754,737
Investment in associates	81,817	-	-	-	-	-	-	81,817
Investment properties	396,912	-	-	-	-	-	-	396,912
Other assets	854,275	8,792,860	92,171	336	2,260	14,424	265,168	10,021,494
Property and equipment, net	958,491	-	-	-	-	-	6,027	964,518
Intangibles assets	123,653	-	-	-	-	-	-	123,653
Total assets	127,978,821	49,349,057	1,829,493	20,543	416,432	16,831	4,114,453	183,725,630
Liabilities								
Due to Central Bank	34,260	-	-	-	-	-	13,840	48,100
Due to banks	1,808,098	1,262,171	8,386	-	74	-	11,657	3,090,386
Derivative financial instruments	1,002,300	3,726,083	4,235	-	594	-	88,356	4,821,568
Deposits from customers	80,521,798	19,447,766	1,539,792	19,754	419,192	13	7,222,510	109,170,825
Euro commercial paper	-	676,200	40,452	-	-	-	-	716,652
Borrowings	11,093,954	18,027,352	331,130	575,706	-	-	1,868,867	31,897,009
Other liabilities	3,114,441	8,521,259	25,711	827	-	-	241,329	11,903,567
Equity	21,745,555	330,804	12,649	-	-	-	(11,485)	22,077,523
Total liabilities and equity	119,320,406	51,991,635	1,962,355	596,287	419,860	13	9,435,074	183,725,630
Net balance sheet position	8,658,415	(2,642,578)	(132,862)	(575,744)	(3,428)	16,818	(5,320,621)	-
Net FX position on account of FX contracts	718,307	(3,238,620)	175,999	575,746	9,625	(21)	1,758,964	-
Net FX open position	9,376,722	(5,881,198)	43,137	2	6,197	16,797	(3,561,657)	-

45 Market risk framework, measurement and monitoring

Market risk is the risk that the Bank's income and/or value of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, commodities prices and options volatilities.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Bank is exposed to market risk with respect to its investments in marketable securities and other financial instruments like derivatives and foreign exchange instruments.

Management of market risk

The Board of Directors have set risk limits based on the Value-at Risk Sensitivity/Stress analysis and foreign exchange open position limits which are closely monitored by the Risk Management Division, reported regularly to the Senior Management and discussed by ALCO.

The Bank's activities expose it primarily to the financial risk of changes in foreign currency exchange rates and interest rates. The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risks.

Market risk is identified, measured, monitored, and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Bank's market risk profile transparent to Senior Management, the Board of Directors and Regulators.

Market risk management is overseen by the Management Risk and Credit Committee (MRCC) and performs the following primary functions:

- Establishment of a comprehensive mark-to-market valuation policy framework;
- Establishment of a comprehensive market risk policy framework;
- Independent measurement, monitoring and control of market risk; and
- Setting up, approval and monitoring of limits.

45 Market risk framework, measurement and monitoring (continued)

Risk identification and classification

The MRCC identifies and classifies market risk for the Bank and puts in place risk management policies and procedures. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

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

Market risk is broadly classified into trading and non-trading categories.

Trading risk

Market risk which includes interest rate risk, foreign exchange risk, equity risk and commodities and other trading risks involve the potential decline in net income or financial condition due to adverse changes in market rates.

Trading risk includes positions that are held by the Bank's trading unit whose main business strategy is to trade or make markets. Unrealised gains and losses in these positions are generally reported in principal transactions under consolidated income statement.

Non-trading risk

Non-trading risk arises from execution of the Bank's core business strategies, products and services to its customers, and the strategic positions the Bank undertakes to manage risk exposures.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

Non-trading risk includes securities and other assets held for longer-term investment in securities and derivatives used to manage the Bank's asset/liability exposures. Unrealised gains and losses in these positions are generally not reported in principal transactions revenue.

Risk measurement

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk, the Bank uses various matrices, both statistical and non-statistical, including:

- Statistical risk measures;
- Non-statistical risk measures and
- Sensitivity analysis.

45 Market risk framework, measurement and monitoring (continued)

Non-statistical risk measures

Non-statistical risk measures, other than stress testing, include independent market valuations, net open positions, basis point values, option sensitivities and position concentrations. These measures provide granular information of the Bank's market risk exposures.

The Bank uses non-statistical scenario based risk limits to support the Value-at-Risk in the monitoring and control of market risk on a day to day basis.

Statistical risk measures

Statistical risk measures include Value-at-Risk and Back-Testing.

The Bank primarily uses Value-at-Risk (VaR) to monitor and control market risk on a day to day basis. The VaR methodology applied is 99% Confidence Level Historical Simulation i.e. Mark-to-Market and Mark-to-Model Revaluations of the Trading Book over the previous two year period of actual market movements.

Market risk - Trading portfolio

The following table depicts the sensitivity of fair valuations in the trading book to hypothetical and instantaneous changes in the level of interest rates - with other market risk factors held constant – which would have an impact on the Bank's consolidated income statement:

Interest rate risk

Relative parallel instantaneous rate move shift for all tenors:

	In AED		**In USD**		**Total**	
	25%	**-25%**	**25%**	**-25%**	**25%**	**-25%**
	AED '000	**AED '000**	**AED '000**	**AED '000**	**AED '000**	**AED '000**
December 31, 2012	**(38,062)**	**51,390**	**35,859**	**(42,401)**	**(2,203)**	**8,989**
December 31, 2011	(17,311)	34,990	19,731	(26,515)	2,420	8,475

Market risk – Non-trading portfolio

Portfolio sensitivity for major interest rate risk (parallel rate shock) is analysed separately for the Bank's non-trading portfolio as follows:

Interest rate risk

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, and the impact on the Bank's consolidated income statement from Bank's non-trading portfolio.

45 Market risk framework, measurement and monitoring (continued)

Market risk – Non-trading portfolio (continued)

Interest rate risk (continued)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
		AED'000	AED'000
December 31, 2012	**+25**	**27,918**	**(32,423)**
	-25	**(27,494)**	**32,423**
December 31, 2011	+25	37,583	(46,305)
	-25	(37,583)	46,305

Currency risk

The following table depicts the sensitivity of fair valuations in the trading and non trading book to hypothetical, instantaneous changes in the level of foreign currency exchange rates - with other market risk factors held constant – which would have an impact on the Bank's consolidated income statement:

Price Shock in Percentage (AED '000)

December 31, 2012		**+10%**	**+5%**	**-5%**	**-10%**
	AUD	**(1,831)**	**(915)**	**1,119**	**2,238**
	EUR	**1,760**	**880**	**(880)**	**(1,760)**
	GBP	**2,931**	**1,465**	**(1,465)**	**(2,931)**
	SAR	**268,045**	**134,022**	**(134,022)**	**(268,045)**
	JPY	**(155)**	**(78)**	**95**	**189**
	US$	**(848,832)**	**(424,416)**	**424,416**	**848,832**
December 31, 2011		+10%	+5%	-5%	-10%
	AUD	(142)	(71)	87	173
	EUR	4,917	2,459	(2,459)	(4,918)
	GBP	20	10	(10)	(20)
	SAR	356,767	178,384	(218,024)	(436,048)
	JPY	827	414	(505)	(1,010)
	US$	(567,912)	(283,956)	283,956	567,912

46 Operational Risk Management

The Bank defines operational Risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". Operational risks can expose the Bank to potentially large losses. While the Bank cannot eliminate all operational risks, it has developed a comprehensive process of identifying, assessing, controlling/mitigating, monitoring and reporting operational risk.

The ultimate responsibility for Bank-wide operational risk profile, as well as compliance with laws and regulations, rests with the Board of Directors (BoD), even though this responsibility has been delegated to the senior management. Ongoing management of operational risk is coordinated by the Operational Risk Management Department (ORMD) and reviewed/controlled by MEC and MRCC as applicable for policy purposes.

The Operational Risk Governance Framework is built on a number of elements which allow the Bank to effectively manage and measure its Operational Risk profile and to calculate the amount of Operational Risk capital that the Bank needs to hold to absorb potential losses.

The Internal Audit function provides further independent review of the Bank's operational risk management processes, systems and controls and reports to the Board and senior management.

47 Foreign currency balances

Net assets amounting to Indian Rupee equivalent of AED 202,577 thousand (December 31, 2011 – AED 199,731 thousand) held in India are subject to the exchange control regulations of India.

48 Trust activities

As at December 31, 2012, the net asset value of the funds under the management of the Bank amounted to AED 1,893,972 thousand (December 31, 2011 – AED 2,357,156 thousand).

49 List of subsidiaries

The following entities have been treated as subsidiaries for the purpose of consolidation as per the Bank's accounting policy as disclosed in Note 3.5. The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Al Dhabi Brokerage Services L.L.C.	100%	2005	U.A.E.	Agent in trading of financial instruments and stocks.
Abu Dhabi Risk and Treasury Solutions L.L.C. (*)(**)	51%	2005	U.A.E.	Providing computer software and design in relation to risk and treasury solutions.
Abu Dhabi Commercial Properties L.L.C.	100%	2005	U.A.E.	Real estate property management and advisory services.
Abu Dhabi Commercial Engineering Services L.L.C.	100%	2007	U.A.E.	Engineering services.
ADCB Holdings (Cayman) Limited	100%	2008	Cayman Islands	Holding company.
ADCB Holdings (Labuan) Limited	100%	2008	Malaysia	Holding company.
ADCB Holdings (Malaysia) Sdn Bhd	100%	2008	Malaysia	Investment holding company.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
Abu Dhabi Commercial Islamic Finance Pvt.J.S.C.	100%	2009	U.A.E.	Islamic banking.
Abu Dhabi Commercial Property Development L.L.C. (*)	100%	2006	U.A.E.	Property development.
Abu Dhabi Commercial Properties Consultancy L.L.C. (*)	100%	2008	U.A.E.	Real estate consultancy.
Abu Dhabi Commercial Finance Solutions L.L.C. (*)	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Investment Services L.L.C.	100%	2005	U.A.E.	Financial investments.

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

49 List of subsidiaries (continued)

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Abu Dhabi Commercial Bank (UK) Limited(*)	100%	2008	United Kingdom	Process service agent.
Abu Dhabi Commercial Projects Services L.L.C. (*)(**)	100%	2006	U.A.E.	Holding company for infrastructure investments.
Kinetic Infrastructure Development L.L.C. (*)	100%	2006	U.A.E.	Infrastructure projects and real estate development.
Al Reem Infrastructure Development L.L.C. (formerly known as Expansion Contracting L.L.C.) (*)(**)	100%	2006	U.A.E.	Investment in commercial projects.
ADCB Fund Management S.A.R.L.	100%	2009	Luxembourg	Fund management company.
Al Nokhitha Investments Feeder Fund	99.10%	2009	Luxembourg	Mutual Fund.
MSCI UAE Index Fund Feeder Fund	100%	2009	Luxembourg	Mutual Fund.
Arabian Index Feeder Fund	97.91%	2009	Luxembourg	Mutual Fund.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of man	Trust activities.
ADCB Services FZ-L.L.C.	100%	2010	U.A.E.	Transaction processing and back office support for related parties.
ADCB Islamic Finance (Cayman) Limited	100%	2011	Cayman Islands	Islamic financing activities.
ADCB Arabian Index Fund	18.35%	2008	U.A.E.	Mutual Fund.
ADCB MSCI UAE Index Fund	37.90%	2007	U.A.E.	Mutual Fund.
Al Nokhitha Fund	22.72%	2005	U.A.E.	Mutual Fund.

(*) These subsidiaries are dormant.
(**) These subsidiaries are under liquidation.

Although the Bank owns less than half of Al Nokhitha Fund, ADCB MSCI UAE Index Fund and ADCB Arabian Index Fund (the "Funds"), the management have determined that the Bank has de facto control because it is exposed to significant variable returns from its involvement with the Funds and has power and rights given by the prospectus of the Funds to affect the amount of its returns and there is no indication that the other unit-holders of the Funds either individually or collectively will exercise their power (Note 3.1).

Notes to the consolidated financial statements
for the year ended December 31, 2012 (continued)

49 List of subsidiaries (continued)

Non-controlling interests in subsidiaries:

The following table summarises information relating to each of the Bank's subsidiaries that has material non-controlling interests (NCI) before any intra-group eliminations:

	2012	2011
	AED '000	AED '000
Bank balances	**13,471**	6,060
Trading securities	**598,081**	549,603
Other assets	**13**	887
Bank overdraft	**-**	(8,469)
Other liabilities	**(2,429)**	(2,244)
Net assets	**609,136**	545,837
Carrying amount of NCI	**463,009**	422,622
Net interest income	**(121)**	(1,342)
Other operating income	**102,509**	(100,547)
Operating expenses	**(9,450)**	(10,053)
Total net profit	**92,938**	(111,942)
Net profit allocated to NCI	**68,772**	(86,001)

50 Capital adequacy and capital management

Capital management process

Capital Risk is the risk that the Bank has inadequate capital resources to:

- ensure capital requirements set by the Central Bank of United Arab Emirates;
- to safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a regular basis as required under Basel II standards. .

The U.A.E. Central Bank vide its circular No. 27/2009 dated November 17, 2009 informed all the Banks operating in the U.A.E. to implement Standardized approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has issued guidelines for implementation of Standardised approach and Banks are required to comply and report under pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach.

ADCB currently uses the approach defined below for Pillar 1 reporting:

Credit Risk - Standardized Approach is currently being used by the Bank in calculating its capital requirements for Credit Risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigation (CRM).

Market Risk - For the regulatory market risk capital requirement, the Bank is using the standardised approach.

Operational Risk - The Bank is currently using the standardised approach for computing capital requirement for operational risk

ADCB also prepares an annual comprehensive ICAAP (Internal Capital Adequacy Assessment Process) document. This document is a detailed assessment by the Bank of its risk profile, approaches to assess and measure various material risks, capital planning under regular and stress scenarios.

50 Capital adequacy and capital management (continued)

Capital management process (continued)

ADCB's capital management is driven by long/short term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Bank seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

Capital supply

As per Basel II requirement, capital should comprise of the following:

Tier 1 capital - includes Paid-up share capital,published reserves (including post-tax retained earnings), share premium,legal reserves, general reserves,hybrid Tier 1 Instruments (with prior approval from Central Bank), minority interests in the equity of subsidiaries less than wholly-owned.

Deductions must be made from Tier 1 core capital as per the the Basel/ Central Bank of UAE rules and includes goodwill and other intangibles at net book value, adjustments for the cumulative effect of foreign currency translation, own shares held - at net book value taking account of any provisions made against the acquisition value, current year loss/retained losses, shortfall in provisions, other deductions to be determined by Central Bank of UAE.

Tier 2 capital - includes general provisions per BASEL and UAE Central Bank norms, undisclosed reserves, asset revaluation reserves/cumulative changes in fair value, hybrid (debt/equity) capital instruments, subordinated term loan.

Tier 3 capital – includes principal form of eligible capital to cover market risks consists of shareholders' equity and retained earnings (Tier 1 capital) and supplementary capital (Tier 2 capital). But, subject to prior approval from the Central Bank of the UAE, banks may employ a third tier of capital (Tier 3), consisting of short term subordinated debt as defined in paragraph 49(xiv) of Basel II, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the conditions in paragraph 49(xiii) and 49(xiv).

Securitised Assets

Exposures to securitised assets that are rated B+ and below (long term), below A3/P3 (short term), or are un-rated are deducted from the capital base. Where deductions of investments are made pursuant to this part on scope of application, the deductions will be 50% from Tier 1 and 50% from Tier 2 capital.

50 Capital adequacy and capital management (continued)

Capital management process (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital and the Bank's business strategy, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance functions and is subject to review by the ALCO as appropriate.

50 Capital adequacy and capital management (continued)

The ratio calculated in accordance with Basel II is as follows:

	Basel II	
	As at 2012 AED'000	As at 2011 AED'000
Tier 1 capital		
Share capital (Note 21)	**5,595,597**	5,595,597
Share premium (Note 21)	**3,848,286**	3,848,286
Other reserves (Note 22)	**5,871,743**	4,919,896
Retained earnings	**4,537,315**	3,708,227
Non-controlling interests in equity of subsidiaries	**437,800**	5,517
Capital notes (Note 25)	**4,000,000**	4,000,000
Less: Investment in associates (50%) (Note 11)	**-**	(40,909)
Less: Intangible assets (Note 15)	**(92,126)**	(123,653)
Less: Securitization exposures	**(27,547)**	(38,350)
	24,171,068	21,874,611
Tier 2 capital		
Collective impairment allowance on loans and advances	**1,601,418**	1,621,328
Cumulative changes in fair value (Note 22)	**187,582**	-
Tier 2 loan (Note 19)	**5,293,965**	6,617,456
Subordinated floating rate notes (Note 19)	**670,286**	938,231
Less: Investment in associates (50%) (Note 11)	**-**	(40,908)
Less: Securitization exposures	**(27,547)**	(38,350)
	7,725,704	9,097,757
Total regulatory capital	**31,896,772**	30,972,368
Risk-weighted assets:		
Credit risk	**128,113,458**	129,706,214
Market risk	**3,749,544**	2,103,768
Operational risk	**6,526,611**	5,805,137
Total risk-weighted assets	**138,389,613**	137,615,119
Total Capital adequacy ratio	**23.05%**	22.51%
Tier 1 ratio	**17.47%**	15.90%
Tier 2 ratio	**5.58%**	6.61%

The capital adequacy ratio was above the minimum requirement of 12 % for December 31, 2012 (December 31, 2011 – 12%) stipulated by the Central Bank of U.A.E.

50 Capital adequacy and capital management (continued)

Tier 1 capital comprises the following resources:

- Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of treasury shares arising on consolidation of funds. These instruments confer a share of ownership in the bank, and carry no obligations;

- Statutory & Legal Reserves:
  - Statutory reserve - As required by Article 255 of U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended), 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly an amount of AED 273,581 thousand has been transferred to statutory reserve during the year (December 31, 2011 – AED 302,586 thousand). The statutory reserve is not available for distribution.

  - Legal reserve - In accordance with the Article 82 of Union Law No 10 of 1980 and Article 84 of the Memorandum and Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly an amount of AED 273,581 thousand has been transferred to legal reserve during the year (December 31, 2011 – AED 302,586 thousand). The legal reserve is not available for distribution.

- General reserve & Contingency Reserves:
  - General Reserves - In accordance with Article 84 of the Memorandum and Articles of Association of the Bank, a further percentage of net profit for the year may require to be transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

  - Contingency reserve - The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

- Employees' incentive plan shares - The Bank grants equity-settled share-based payments to employees. These shares acquired by ADCB for its employees are treated as treasury shares and are deducted from capital;

- Foreign Currency Translation Reserves - The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities and gains and losses on derivatives that hedge the Bank's net investment in foreign operations.

- Retained earnings, - which represent the cumulative profits not distributed to shareholders, and other eligible reserves;

- Non-controlling interest in equity of subsidiaries;

50 Capital adequacy and capital management (continued)

Tier 1 capital comprises the following resources (continued):

- Capital Notes - In February 2009, the Department of Finance, Government of Abu Dhabi subscribed for ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"). The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Issuer subject to certain conditions; and

Deductions from Tier 1 resources include intangible assets, 50% of investments in associates and securitization exposures.

Tier 2 capital comprises the following resources:

- Collective impairment on loans and advances limited to 1.25% of credit risk weighted assets;
- Cumulative changes in fair value - The cumulative changes in fair values includes the cumulative net change in the fair value of available for sale investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive. But if the balance is negative, the entire balance is adjusted in Tier 1 capital; and
- Long term borrowings.

Deductions from Tier 2 resources include 50% of investments in associates and securitization exposures.

51 Legal proceeding

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Bank's consolidated financial statements if disposed unfavorably.