

BANK OF SHARJAH P.S.C.

**Reports and consolidated financial
statements for the year ended
31 December 2011**

Bank of Sharjah P.S.C.

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for the year ended 31 December 2011**

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Bank of Sharjah P.S.C.

Board of Directors' report

The Board has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2011.

INCORPORATION AND REGISTERED OFFICE

Bank of Sharjah P.S.C. (the "Bank") is a Public Shareholding Company with Limited Liability, incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced operations under a banking license issued from United Arab Emirates Central Bank dated 26 January 1974.

The Bank's registered office is located at Al Hosn Avenue, P.O. Box 1394, Sharjah, United Arab Emirates.

PRINCIPAL ACTIVITY

The Bank's principal activities are commercial and investment banking.

RESULTS

The profit for the year ended 31 December 2011 amounted to AED 254 million (2010: AED 404 million). The total comprehensive income for the year ended 31 December 2011 amounted to AED 242 million (2010: AED 393 million) after taking into consideration gain on revaluation of financial assets measured at fair value through other comprehensive income amounting to AED 1,258 thousand (2010: gain of AED 938 thousand).

The detailed results are set out in the attached consolidated financial statements.

DIRECTORS

The Directors during the year were:

- | | |
|--|--------------------------------------|
| 1. Mr. Ahmed Abdulla Al Noman | 7. Mr. Abdul Aziz Mubarak Al Hassawi |
| 2. Sheikh Mohamed Bin Saoud Al Qassimi | 8. Mr. Saud Al Besharah |
| 3. Sheikh Seif Bin Mohd Bin Butti Al Hamed | 9. Mr. Francois Dauge |
| 4. H.E. Humeid Naser Al Owais | 10. Jean-Jacques Santini |
| 5. Mr. Abdul Rahman Bukhatir | 11. Mr. Varouj Nerguizian |
| 6. Mr. Abdul Aziz Hassan Al Midfa | |

On behalf of the Board

Mr. Ahmed Abdulla Al Noman
Chairman
Sharjah
14 February 2012

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Bank of Sharjah P.S.C.
Sharjah
United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bank of Sharjah P.S.C. and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Bank 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 the consolidated financial statements that are free from material misstatements, 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 Bank'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 Bank'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.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects, the financial position of Bank of Sharjah P.S.C. and its subsidiaries (the "Bank") as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report relating to the consolidated financial statements is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

Deloitte & Touche (M.E.)

Saba Y. Sindaha
Registration Number 410
14 February 2012

**Consolidated statement of financial position
as at 31 December 2011**

	Notes	2011 AED'000	2010 AED'000
ASSETS			
Cash and balances with central banks	5	1,599,145	1,833,550
Deposits and balances due from banks	6	3,648,645	3,272,452
Loans and advances, net	7	12,039,325	12,106,840
Other financial assets measured at fair value	8	1,111,349	888,104
Other financial assets measured at amortized cost	8	736,597	902,530
Investment properties	9	126,821	149,665
Goodwill and other intangibles	10	265,370	273,153
Other assets	11	1,176,385	964,104
Property and equipment	13	230,735	227,282
Total assets		20,934,372	20,617,680
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	14	14,940,143	14,377,327
Deposits and balances due to banks	15	465,651	423,979
Other liabilities	16	833,402	870,492
Syndicated loan	17	495,855	550,950
Total liabilities		16,735,051	16,222,748
Equity			
Capital and reserves			
Share capital	18 (a)	2,100,000	2,100,000
Treasury shares	18 (a)	(230,602)	(2,657)
Statutory reserve	18 (b)	1,085,357	1,085,357
Contingency reserve	18 (c)	352,078	329,213
Additional reserves		30,390	30,390
Investment fair value reserve		(4,947)	(11,454)
Retained earnings		618,820	640,436
Equity attributable to shareholders of the Parent		3,951,096	4,171,285
Non-controlling interest		248,225	223,647
Total equity		4,199,321	4,394,932
Total liabilities and equity		20,934,372	20,617,680
Commitments and contingent liabilities	21	5,794,893	6,137,864

.....
Mr. Ahmed Al Noman
Chairman

.....
Mr. Varouj Nerguizian
Executive Director & General Manager

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

**Consolidated income statement
for the year ended 31 December 2011**

	Notes	2011 AED'000	2010 AED'000
Interest income	24	1,077,420	1,068,071
Interest expense	25	(549,869)	(518,021)
Net interest income		527,551	550,050
Net fee and commission income	26	113,367	121,177
Exchange profit		23,648	20,334
Investment income	27	9,540	6,387
Gain on disposal of associate & subsidiaries		-	19,523
Revaluation loss on investment properties	9	(22,844)	(35,132)
Other income		16,819	6,100
Operating income		668,081	688,439
Net impairment charge on financial assets	28	(211,880)	(75,463)
Net operating income		456,201	612,976
General and administrative expenses	29	(184,914)	(193,377)
Amortisation of intangible assets	10	(7,783)	(7,784)
Profit before taxes		263,504	411,815
Income tax expense - overseas		(9,706)	(7,868)
Profit for the year		253,798	403,947
Attributable to:			
Shareholders of the parent company		228,653	397,452
Non-controlling interest		25,145	6,495
		253,798	403,947
Basic earnings per share (AED)	19	0.112	0.189

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

**Consolidated statement of comprehensive income
for the year ended 31 December 2011**

	Notes	2011 AED'000	2010 AED'000
Profit for the year		<u>253,798</u>	<u>403,947</u>
Other comprehensive (loss)/income			
Loss on sale of financial assets measured at fair value through other comprehensive income		(664)	-
Changes in fair value of financial assets measured at fair value through other comprehensive income		1,258	938
Charity donations appropriated in the year	20	(2,500)	(2,500)
Directors' remuneration paid during the year	20	(9,700)	(9,695)
Total other comprehensive loss for the year		<u>(11,606)</u>	<u>(11,257)</u>
Total comprehensive income for the year		<u>242,192</u> =====	<u>392,690</u> =====
Attributed to:			
Shareholders of the parent company		217,614	386,612
Non-controlling interest		24,578	6,078
		<u>242,192</u> =====	<u>392,690</u> =====

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

**Consolidated statement of changes in equity
for the year ended 31 December 2011**

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Contingency reserve AED'000	Additional reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Equity attributable to the shareholders of the Parent AED'000	Non- controlling interest AED'000	Total equity AED'000
Balance at 31 December 2009	2,000,000	-	1,085,357	289,468	30,390	98,413	537,543	4,041,171	55,528	4,096,699
Effect of change in the accounting policy for financial instruments – recognition and measurement (IFRS 9) - (Note 2)	-	-	-	-	-	(110,805)	98,400	(12,405)	(2,910)	(15,315)
Balance at 1 January 2010 - restated	2,000,000	-	1,085,357	289,468	30,390	(12,392)	635,943	4,028,766	52,618	4,081,384
Profit for the year	-	-	-	-	-	-	397,452	397,452	6,495	403,947
Other comprehensive loss	-	-	-	-	-	938	(11,778)	(10,840)	(417)	(11,257)
Total comprehensive income for the year	-	-	-	-	-	938	385,674	386,612	6,078	392,690
Shares held in treasury	-	(2,657)	-	-	-	-	-	(2,657)	-	(2,657)
Issue of bonus shares	100,000	-	-	-	-	-	(100,000)	-	-	-
Regulatory reserve for assets in settlement of debt	-	-	-	-	-	-	(1,436)	(1,436)	(334)	(1,770)
Transfer to reserves	-	-	-	39,745	-	-	(39,745)	-	-	-
Dividends paid (Note 20)	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Additions to non-controlling interest	-	-	-	-	-	-	-	-	165,285	165,285
Balance at 31 December 2010	2,100,000	(2,657)	1,085,357	329,213	30,390	(11,454)	640,436	4,171,285	223,647	4,394,932
Profit for the year	-	-	-	-	-	-	228,653	228,653	25,145	253,798
Other comprehensive loss	-	-	-	-	-	6,507	(17,546)	(11,039)	(567)	(11,606)
Total comprehensive income for the year	-	-	-	-	-	6,507	211,107	217,614	24,578	242,192
Shares held in treasury	-	(227,945)	-	-	-	-	-	(227,945)	-	(227,945)
Transfer to reserves	-	-	-	22,865	-	-	(22,865)	-	-	-
Dividends paid (Note 20)	-	-	-	-	-	-	(209,858)	(209,858)	-	(209,858)
Balance at 31 December 2011	2,100,000	(230,602)	1,085,357	352,078	30,390	(4,947)	618,820	3,951,096	248,225	4,199,321

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

**Consolidated statement of cash flows
for the year ended 31 December 2011**

	2011 AED'000	2010 AED'000
Cash flows from operating activities		
Profit for the year	253,798	403,947
Adjustments for:		
Depreciation of property and equipment and amortisation of intangible assets	18,510	18,735
Amortisation of premium on convertible bonds and other debt instruments	(934)	(22,703)
Gain on sale of property and equipment	(99)	(125)
Gain on sale of investments	(977)	(547)
Gain on disposal of associates and subsidiaries	-	(19,523)
Fair value loss on investments carried at FVTPL	29,527	12,011
Fair value loss on investment properties revaluation	22,844	35,132
Allowance for impairment on financial assets	211,880	75,463
Payment of directors' remuneration and charity donation	(9,700)	(12,195)
	<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities	524,849	490,195
Decrease/(increase) in deposits and due from banks maturing after three months	539,515	(183,270)
Increase in statutory reserves with central banks	(34,540)	(72,009)
Increase in loans and advances	(144,364)	(731,821)
Increase in other assets	(202,182)	(158,074)
Increase in customers' deposits	562,816	2,264,029
(Decrease)/increase in other liabilities	(39,590)	254,939
Net movement on syndicated loan	(55,095)	(183,650)
	<hr/>	<hr/>
Net cash generated from operating activities	1,151,409	1,680,339
Cash flows from investing activities		
Purchase of property and equipment	(18,221)	(30,140)
Proceeds from sale of property and equipment	4,140	136
Purchase of investments	(429,404)	(239,416)
Proceeds from sale of investment in an associate & subsidiary	-	114,464
Proceeds from sale of partial stake in a subsidiary	-	165,285
Proceeds from sale of investments	334,970	66,706
	<hr/>	<hr/>
Net cash (used in)/generated from investing activities	(108,515)	77,035
Cash flows from financing activities		
Acquisition of treasury shares	(227,945)	(2,657)
Dividends paid	(209,858)	(240,000)
	<hr/>	<hr/>
Net cash used in financing activities	(437,803)	(242,657)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	605,091	1,514,717
Cash and cash equivalents at the beginning of the year	3,261,425	1,746,708
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year (Note 22)	3,866,516	3,261,425

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011****1 General information**

Bank of Sharjah P.S.C. (the “Bank”), is a public shareholding company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank’s registered office is located at Al Hosn Avenue, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through four branches in the United Arab Emirates situated in the Emirates of Sharjah, Dubai, Abu Dhabi, and the city of Al Ain.

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Bank’s functional and presentation currency.

2 Adoption of new and revised International Financial Reporting Standards (IFRSs)**2.1 Standards and Interpretations effective for the current year**

The following new and revised standards and interpretations have been adopted in the current year with no material impact on the disclosures and amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements:

- Amendments to IAS 24 *Related Party Disclosures* modify the definition of a related party and simplify disclosures for government-related entities.
- Amendments to IAS 32 *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*. The amendments correct an unintended consequence of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognized in the income statement.
- Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IAS 1; IAS 27 (2008); IAS34; and IFRIC 13.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

2.2 Standards and Interpretations in issue but not yet effective

The Bank has not early applied the following new standards, amendments and interpretations that have been issued but not yet effective:

	Effective for annual periods <u>beginning on or after</u>
<ul style="list-style-type: none"> Amendments to IFRS 7 <i>Disclosures – Transfers of Financial Assets</i> increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. 	1 July 2011
<ul style="list-style-type: none"> IFRS 10 <i>Consolidated Financial Statements</i>* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 <i>Separate Financial Statements</i>* and IAS 28 <i>Investments in Associates and Joint Ventures</i>* have been amended for the issuance of IFRS 10. 	1 January 2013
<ul style="list-style-type: none"> IFRS 11 <i>Joint Arrangements</i>* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 <i>Investments in Associates and Joint Ventures</i> has been amended for the issuance of IFRS 11. 	1 January 2013
<ul style="list-style-type: none"> IFRS 12 <i>Disclosure of Interests in Other Entities</i>* combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard. 	1 January 2013
<ul style="list-style-type: none"> IFRS 13 <i>Fair Value Measurement</i> issued in May 2011, establishes a single framework for measuring fair value and is applicable for both financial and non-financial items. 	1 January 2013
<ul style="list-style-type: none"> Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i>. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be classified into those that will and will not subsequently be reclassified to the income statement. 	1 July 2012

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

**2. Adoption of new and revised International Financial Reporting Standards (IFRSs)
(continued)**

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

	Effective for annual periods <u>beginning on or after</u>
<ul style="list-style-type: none"> Amendments to IAS 12 <i>Income Taxes</i> provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 <i>Investment Property</i> by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. 	1 January 2012
<ul style="list-style-type: none"> Amendments to IAS 19 <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur. 	1 January 2013
<ul style="list-style-type: none"> Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities. 	1 January 2013
<ul style="list-style-type: none"> Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities. 	1 January 2013
<p>* In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.</p>	

The management anticipates that the adoption of these Standards and Interpretations will have no material impact on the consolidated financial statements of the Bank in the year of initial application.

3 Summary of significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Central Bank of the U.A.E. requirements as relates to the impairment of loans and advances measured at amortised cost and calculation of the capital adequacy ratio.

As required by the Securities and Commodities Authority of the U.A.E. (“SCA”) Notification No. 2624/2008 dated 12 October 2008, the Bank’s exposure in cash and balances with central banks, deposits and due from banks and investment securities outside the U.A.E. have been presented under the respective notes to the consolidated financial statements.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3 Summary of significant accounting policies (continued)

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Bank.

All intra-group transactions, balances, income, and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Bank's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Parent.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

When the Bank loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

The Bank's interest, held directly or indirectly, in subsidiaries is as follows:

Name of Subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Emirates Lebanon Bank S.A.L	51%	1965	Lebanon	Financial institution
BOS Real Estate FZC	100%	2009	U.A.E.	Real estate development activities
BOS Capital FZC	100%	2009	U.A.E.	Investment of own financial resources
Polycy General Trading L.L.C.	100%	2008	U.A.E	General trading
Borealis Gulf FZC	100%	2010	U.A.E.	Real estate development activities

3.4 Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated statement of cash flows consist of cash on hand, current accounts and other balances with central banks, certificate of deposits, balances with banks, and money market placements which are maturing within three months.

3.5 Due from banks

Due from banks are stated at cost less any amounts written-off and allowance for impairment, if any.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3 Summary of significant accounting policies (continued)

3.6 Financial assets

All financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, net of transaction costs that are directly attributable to the acquisition of the financial asset, except for those financial assets measured subsequently at fair value through profit or loss, which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortized cost or fair value.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Classification of financial assets:

For the purposes of classifying financial assets an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Financial assets measured at amortized cost:

Debt instruments, including loans and advances are measured at amortized cost if both of the following conditions are met:

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

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs [except if they are designated as at fair value through profit or loss (FVTPL)]. They are subsequently measured at amortized cost using the effective interest method less any impairment, with interest revenue recognised on an effective yield basis in other income in the consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3 Summary of significant accounting policies (continued)

3.6 Financial assets (continued)

Financial assets measured at amortized cost: (continued)

Subsequent to initial recognition, the Bank is required to reclassify debt instruments from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria is no longer met.

The Bank may irrevocably elect at initial recognition to classify a debt instrument that meets the amortized cost criteria above as FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

Financial assets measured at FVTPL

Debt instrument financial assets that do not meet the amortized cost criteria described above, or that meet the criteria but the Bank has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

Subsequent to initial recognition, the Bank is required to reclassify debt instruments from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria starts to be met and the instrument's contractual cash flows meet the amortized cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition is not permitted.

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Bank designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the other income in the consolidated income statement. Fair value is determined in the manner described in note 35.

Interest income on debt instruments at FVTPL is included in the other income. Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Bank's right to receive the dividends is established.

Financial assets at FVTOCI

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Summary of significant accounting policies (continued)****3.6 Financial assets (continued)***Financial assets at FVTOCI (continued)*

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to consolidated income statement, but is reclassified to retained earnings.

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

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange component forms part of its fair value gain or loss. For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated income statement. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortized cost, the foreign exchange gains and losses are determined based on the amortized cost of the asset and are recognised in the other income in the consolidated income statement.

3.7 Fair values

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- 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; and
- The fair value of derivative instruments is calculated using quoted 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Summary of significant accounting policies (continued)****3.8 Investments in associates**

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate) are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Bank's subsidiary or other associate transacts with an associate of the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

3.9 Loans and advances

Loans and advances are non-derivative financial assets originating from or acquired by the Bank with fixed or determinable payments.

Loans and advances are stated at amortized cost less any amounts written off and allowance for doubtful accounts. The carrying values of loans and advances which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged with the resultant adjustment recognised in the consolidated income statement.

Allowance for impairment is made against loans and advances when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Loans and advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3 Summary of significant accounting policies (continued)

3.10 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment property includes cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment property is reported at valuation based on fair value at the end of the reporting period. 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 a 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.

3.11 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

	Years
Buildings	20 - 40
Furniture and office equipment	2 - 6
Installation, partitions and decorations	3 - 4
Leasehold improvements	5 - 10
Motor vehicles	3

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.

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

3.12 Intangible assets acquired separately

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).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3 Summary of significant accounting policies (continued)

3.12 Intangible assets acquired separately (continued)

Amortisation is charged so as to write off the cost of intangible assets, over their estimated useful lives using the straight-line method as follows:

	Years
Banking license	Infinite
Legal corporate setup in Lebanon	10
Customer base	10
Branch network	10

3.13 Impairment of tangible and intangibles

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangibles 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.

The 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.

3.14 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Summary of significant accounting policies (continued)****3.14 Impairment of financial assets (continued)**

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Bank as follows:

Individually assessed loans

Individually assessed loans mainly represent corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubt about the borrower's ability to meet payment obligations generally arises when:

- a) Principal and interest are not serviced as per contractual terms; and
- b) When there is significant deterioration in the borrower's financial condition and the amount expected to be realised from disposal of collaterals, if any, is not likely to cover the present carrying value of the loan.

Impaired loans are measured on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

- a) Performing loans
- b) Retail loans with common features and which are not individually significant.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Summary of significant accounting policies (continued)****3.14 Impairment of financial assets (continued)*****Performing loans***

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating. Impairment covers losses which may arise from individual performing loans that are impaired at the end of the reporting period but were not specifically identified as such until some time in the future. The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant

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

Renegotiated loans

Retail loans, which are subject to collective impairment review and whose terms have been renegotiated, are no longer considered to be past due and consequently impaired only when the minimum required number of payments under the new arrangements has not been received and the borrower has not complied with the revised terms and conditions.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

3.15 Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.16 Collateral pending sale

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

3.17 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Bank enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward foreign exchange contracts and currency swaps.

Derivative financial instruments are initially measured at cost, being the 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.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

For the purpose of hedge accounting, the Bank classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

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

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 re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. 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 a hedged item for which the effective interest method is used, is amortized in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.17 Derivative financial instruments (continued)***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 the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in other comprehensive income 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 other comprehensive income are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

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 as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

3.18 Other financial liabilities

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

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

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. 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.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.19 Customers' deposits and syndicated loan

Customers' deposits and syndicated loan are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortized cost using the effective interest method.

3.20 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Bank in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair values at the acquisition date; except for non-current assets (or disposal banks) that are classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3.21 Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3.22 Employees' end-of-service benefits

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.

Pension and national insurance contributions for the U.A.E. citizens are made by the Bank in accordance with Federal Law No. 7 of 1999.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.23 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.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, 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. 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.

3.24 Acceptances

Acceptances are recognised as financial liabilities in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments with respect to acceptances have been accounted for as financial assets and financial liabilities.

3.25 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 guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortized over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortized 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 in other liabilities.

3.26 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Summary of significant accounting policies (continued)****3.27 Recognition and de-recognition of financial instruments**

The Bank recognises a financial asset or liability in its consolidated statement of financial position only when it becomes party to the contractual provisions of that instrument. Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

3.28 Offsetting of financial assets and liabilities

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.

3.29 Revenue and expense recognition

Interest income, interest expense, and loan commitment fees are recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable. Commission and fee income are generally accounted for on the date the transaction arises. Interest accruing on loans and advances considered doubtful is excluded from income until received. Subsequently, notional interest is recognised on doubtful loans and advances and other financial assets based on the rate used to discount the net present value of future cash flows. Other fees receivable or payable are recognised when earned.

Gain or loss on financial assets measured at fair value through profit and loss comprises all gains and losses from changes in the fair value of the financial assets measured at fair value through profit and loss and from the disposal of those financial assets. Gain or loss on disposal of the financial assets measured at fair value through profit and loss represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs.

Dividend revenue from investments is recognised when the Bank's right to receive payments has been established.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.30 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Summary of significant accounting policies (continued)****3.30 Foreign currencies (continued)**

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date 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 that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on the non-monetary is recognised directly in the consolidated income statement if the gain or loss on the non-monetary item is recognised in the income statement.

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 exchange reserve'.

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 proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.31 Dividends

Dividends are recognised outside profit or loss in equity in the year in which they are declared. Dividends declared after end of the reporting period are disclosed as proposed dividends.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Critical accounting judgements and key sources of estimation of uncertainty**

While applying the accounting policies as stated in Note 3, the management of the Bank has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Impairment of financial assets measured at amortised cost and loans and advances

The Bank's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

The allowance for loans and advances losses is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired loans and advances are included in the allowance for loans and advances losses and affect the consolidated income statement accordingly.

Loans and advances

The impairment allowance for loan losses is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful loans and advances.

Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining the allowance for impairment on individual loans and advances which are significant:

- The amount expected to be realised on disposal of collaterals.
- The Bank's ability to enforce its claim on the collaterals and the associated cost of litigation.
- The expected time frame to complete legal formalities and disposal of collaterals.

The Bank's policy requires quarterly review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Critical accounting judgements and key sources of estimation of uncertainty (continued)****i. Impairment of financial assets measured at amortised cost and loans and advances (continued)***Collectively assessed loans*

Collective assessment of allowance for impairment is made for overdue retail loans with common features which are not individually significant and performing loans which are not found to be individually impaired.

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

Retail loans – All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

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 end of the reporting period.

ii. Classification of properties

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

iii. Fair value of investment properties and investment properties under development

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Bank determined the amount within a range of reasonable fair value estimates. In making its judgment, the Bank considered recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The determination of the fair value of revenue-generating properties requires the use of estimates such as future cash flows from assets (such as leasing, tenants' profiles, future revenue streams, capital values of fixtures and fittings, and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of investment properties under development. These estimates are based on local market conditions existing at the end of the reporting period.

The continuing volatility in the global financial system and in the real estate industry has contributed to the significant reduction in transaction volumes in the UAE. Therefore, in arriving at their estimates of market values as at 31 December 2011, the valuers have used their market knowledge and professional judgement and have not relied solely on historic transactional comparables. In these circumstances, there is a greater degree of uncertainty than in a more active market in estimating market values of investment property.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4 Critical accounting judgements and key sources of estimation of uncertainty (continued)

iv. Useful lives of property and equipment and intangible assets

Management reviews the residual values and estimated useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period in accordance with IAS 16 and IAS 38. Management determined that current year expectations do not differ from previous estimates based on its review.

v. Impairment of properties under development

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

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Valuation of unquoted equity investments

The valuation of unquoted equity investments is normally based on recent market transactions done on an arm's length basis, or the fair value of another instrument that is substantially the same, or the expected cash flows discounted at current rates for similar instruments, or on other valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of the unquoted equity investments. Unquoted equity investments are not materially different from their fair values.

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's 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; and
- 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

5 Cash and balances with central banks

(a) The analysis of the Bank's cash and balances with central banks is as follows:

	2011	2010
	AED'000	AED'000
Cash on hand	65,646	52,372
Statutory deposits	909,504	874,964
Current account	117,357	62,549
Certificates of deposit	506,638	843,665
	1,599,145	1,833,550

(b) The geographical analysis of the cash and balances with central banks is as follows:

Banks abroad	1,052,214	917,451
Banks in the U.A.E.	546,931	916,099
	1,599,145	1,833,550

The Bank is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits with the Central Banks are not available to finance the day to day operations of the Bank. However, as per notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and US\$ reserve requirement limit. As of 31 December 2011, the statutory deposit with the Central Bank of the U.A.E. amounted to AED 356 million (31 December 2010: AED 322 million).

6 Deposits and balances due from banks

(a) The analysis of the Bank's deposits and balances due from banks is as follows:

	2011	2010
	AED'000	AED'000
Demand	567,517	530,792
Time	3,081,128	2,741,660
	3,648,645	3,272,452

(b) The above represent deposits and balances due from:

Banks abroad	775,600	1,961,082
Banks in the U.A.E.	2,873,045	1,311,370
	3,648,645	3,272,452

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

7 Loans and advances, net

(a) The analysis of the Bank's loans and advances measured at amortised cost is as follows:

	2011	2010
	AED'000	AED'000
Overdrafts	5,487,494	6,019,681
Commercial loans	6,119,116	5,338,981
Bills receivable	965,785	1,093,946
Other advances	256,191	215,535
	12,828,586	12,668,143
Less: Allowance for doubtful loans and advances	(683,260)	(467,216)
Less: Interest in suspense	(106,001)	(94,087)
	12,039,325	12,106,840

(b) The geographic analysis of the loans and advances of the Bank are as follows:

	2011	2010
	AED'000	AED'000
Loans and advances in the U.A.E.	10,518,154	10,427,669
Loans and advances outside the U.A.E.	2,310,432	2,240,474
	12,828,586	12,668,143

(c) The risk classification of loans and advances is as follows:

	2011	2010
	AED'000	AED'000
Performing loans	11,110,456	10,471,677
Other loans exceptionally monitored	1,384,849	1,885,642
Non-performing loans	333,281	310,824
	12,828,586	12,668,143
Less: Allowance for doubtful loans and advances	(683,260)	(467,216)
Less: Interest in suspense	(106,001)	(94,087)
	12,039,325	12,106,840

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

7 Loans and advances, net (continued)

(d) Loans and advances are stated net of allowance for doubtful loans and advances. The movement in the allowance during the year was as follows:

	2011	2010
	AED'000	AED'000
At 1 January	467,216	275,502
Additions through credit extension premium	9,601	116,420
Additions during the year (Note 28)	221,046	84,970
Write offs	(4,792)	(220)
Recoveries	(9,811)	(9,456)
At 31 December	683,260	467,216

Additions through credit extension premium represent the fees charged to clients upon sanctioning/granting any new facilities on the limit and allocated directly to collective impairment provision.

(e) The movement in the interest in suspense account during the year was as follows:

	2011	2010
	AED'000	AED'000
At 1 January	94,087	81,794
Additions during the year	15,988	14,180
Write offs during the year	(2,943)	(460)
Recoveries	(1,131)	(1,427)
At 31 December	106,001	94,087

At 31 December 2011, the gross amount of loans and advances on which interest is not being accrued, or is suspended, amounted to AED 333 million (2010: AED 311 million). Unrecognised interest for the year relating to such loans amounted to AED 16 million (2010: AED 14 million).

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

7 Loans and advances, net (continued)

(f) The composition of the loans and advances portfolio by industry is as follows:

	2011	2010
	AED'000	AED'000
Economic sector		
Trading	4,803,640	4,217,082
Personal loans for commercial purposes	819,365	2,570,718
Services	2,326,085	1,387,790
Manufacturing	1,625,549	1,485,607
Construction	883,443	1,152,603
Government	133,112	253,099
Public utilities	1,105,995	576,183
Mining and quarrying	516,016	514,107
Transport and communication	185,605	238,184
Personal loans for individual purposes	132,855	117,991
Agriculture	109,454	76,709
Financial Institution	181,070	56,532
Others	6,397	21,538
	12,828,586	12,668,143
Less: Allowance for doubtful loans and advances	(683,260)	(467,216)
Less: Interest in suspense	(106,001)	(94,087)
	12,039,325	12,106,840

(g) As at 31 December 2011, loans and advances measured at amortised cost include AED 511 million (2010: AED 271.5 million) of loans and advances that are past due but not impaired.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

8 Other financial assets

(a) The analysis of the Bank's other financial assets as at 31 December 2011 is as follows:

	2011	2010
	AED'000	AED'000
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	57,700	69,557
Debt instruments	3,145	99
	<u>60,845</u>	<u>69,656</u>
(ii) Investments carried at FVTOCI		
Quoted equity	115,362	168,077
Unquoted equity	935,142	650,371
	<u>1,050,504</u>	<u>818,448</u>
Total other financial assets measured at fair value	<u>1,111,349</u>	<u>888,104</u>
Other financial assets measured at amortized cost		
Debt securities	736,597	902,530
Total other financial assets	<u>1,847,946</u>	<u>1,790,634</u>

The majority of the quoted investments are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market).

(b) The composition of the investment portfolio by geography is as follows:

	2011	2010
	AED'000	AED'000
United Arab Emirates	346,695	410,397
G.C.C. countries (other than U.A.E.)	7,288	10,360
Middle East and Africa (other than G.C.C. countries)	1,489,127	1,366,580
Europe	4,836	3,297
	<u>1,847,946</u>	<u>1,790,634</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

8 Other financial assets (continued)

- (c) Other financial assets measured at FVTOCI are strategic equity investments and mutual funds that are not held to benefit from changes in their fair value and are not held for trading. The management believes therefore that designating these investments as at FVTOCI will provide a more meaningful presentation of its medium to long-term interest in its investment than fair valuing the interest through profit or loss.
- (d) During the year ended 31 December 2011, dividends received from financial assets measured at FVTOCI amounting to AED 32.6 million (2010: AED 5.8 million) have been recognized as investment income in the consolidated income statement.

9 Investment properties

	31 December 2010 AED'000	Changes in fair value AED'000	31 December 2011 AED'000
Plots of land in the U.A.E.	78,496	(16,697)	61,799
Commercial and residential units in the U.A.E.	71,169	(6,147)	65,022
Carrying value at 31 December	<u>149,665</u>	<u>(22,844)</u>	<u>126,821</u>

Investment properties represent plots of land and properties under development held by the Bank for undetermined future use. The fair value of investment properties is estimated periodically by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. As at 31 December 2011, the fair value has been arrived at on the basis of a valuation carried out on December 2011 by an independent qualified valuer.

10 Goodwill and other intangibles

- (a) The analysis of the Bank's goodwill and other intangibles is as follows:

	2011 AED'000	2010 AED'000
Goodwill	184,733	184,733
Other intangibles		
Banking license	18,365	18,365
Legal corporate setup in Lebanon	34,357	38,651
Customer base	24,977	28,099
Branch network	2,938	3,305
	<u>80,637</u>	<u>88,420</u>
Total	<u>265,370</u>	<u>273,153</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

10 Goodwill and other intangibles (continued)

(b) The movement on other intangible assets during the year was as follows:

Other intangibles	Banking license AED'000	Legal corporate setup in Lebanon AED'000	Customer base AED'000	Branch network AED'000	Total AED'000
Balance at 1 January 2010	18,365	42,945	31,221	3,673	96,204
Amortization in 2010	-	(4,294)	(3,122)	(368)	(7,784)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	18,365	38,651	28,099	3,305	88,420
Amortization in 2011	-	(4,294)	(3,122)	(367)	(7,783)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	18,365	34,357	24,977	2,938	80,637
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

In 2007 the Bank acquired all the outstanding shares of Banque de la Bekaa SAL, a Lebanese bank. During 2008, the Bank had recapitalised Banque de la Bekaa SAL by increasing its capital to US\$ 50 million plus a cash contribution of US\$ 100 million in order to reach a total initial equity of US\$ 150 million. Also the Bank had changed its name to Emirates Lebanon Bank SAL ("ELBank") which then acquired the assets and liabilities of BNPI in Lebanon. The other intangibles relate to the acquisition of BNPI in Lebanon in 2008.

11 Other assets

	2011 AED'000	2010 AED'000
Acceptances- contra	599,692	609,122
Assets acquired in settlement of debt	303,695	-
Receivable from sale of investments	178,452	260,176
Clearing receivables	6,714	22,740
Interest receivable	2,737	1,460
Prepayments	13,208	8,222
Positive fair value of derivatives (Note 12)	132	59
Other	71,755	62,325
	<hr/>	<hr/>
	1,176,385	964,104
	<hr/> <hr/>	<hr/> <hr/>

The Bank reports under other assets, positive fair value of derivative contracts used by the Bank in the ordinary course of business. Refer to Note 12 below for further details about the nature and type of derivative contracts utilised by the Bank, together with the notional amounts and maturities.

Receivable from sale of investments arose on account of the sale of a 20% interest in a privately held company to develop and promote real estate and tourism activities in Tunisia, the sale proceeds are recoverable in four equal annual instalments of US\$ 25 million (AED 91.8 million) due from 2009 to 2012.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****12 Derivatives**

In the ordinary course of business the Bank enters into various types of transactions that involve 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. Derivative financial instruments which the Bank enters into include forwards and swaps.

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

Forward currency transactions - Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Swap transactions - Currency swaps are commitments to exchange one set of cash flows for another. Currency swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain cross-currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil 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.

Derivative related credit risk - Credit risk with respect to 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 a number of financial institutions of good credit rating.

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 rates. The Bank uses forward foreign exchange contracts to hedge exchange rate risks. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

12 Derivatives (continued)

The following table shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity, and the nature of the risk being hedged.

	<u>Notional amounts by term to maturity</u>				
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	3-12 months AED'000
Held as fair value hedges					
2011					
Currency swaps	-	-	550,950	550,950	-
Forward foreign exchange contracts	132	-	40,007	8,272	31,735
Total	<u>132</u>	<u>-</u>	<u>590,957</u>	<u>559,222</u>	<u>31,735</u>
	=====	=====	=====	=====	=====
2010					
Currency swaps	-	-	1,344,273	1,344,273	-
Forward foreign exchange contracts	59	-	47,081	16,260	30,821
Total	<u>59</u>	<u>-</u>	<u>1,391,354</u>	<u>1,360,533</u>	<u>30,821</u>
	=====	=====	=====	=====	=====

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the fair value of the derivatives, nor market risk.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

13 Property and equipment

	Land & buildings AED'000	Furniture and office equipment AED'000	Leasehold improvements installation, partitions and decoration AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 1 January 2010	173,600	67,916	40,120	4,668	18,698	305,002
Additions during the year	18,811	6,211	4,450	668	-	30,140
Disposals	-	(262)	(9)	(430)	-	(701)
Transfers	18,698	-	-	-	(18,698)	-
At 31 December 2010	211,109	73,865	44,561	4,906	-	334,441
Additions during the year	-	7,152	10,542	527	-	18,221
Disposals	-	(1,054)	(3,877)	(980)	-	(5,911)
At 31 December 2011	211,109	79,963	51,226	4,453	-	346,751
Accumulated depreciation						
At 1 January 2010	5,922	54,605	33,621	2,750	-	96,898
Charge for the year	2,083	5,529	2,639	700	-	10,951
Disposals	-	(251)	(9)	(430)	-	(690)
At 31 December 2010	8,005	59,883	36,251	3,020	-	107,159
Charge for the year	1,379	4,722	3,812	814	-	10,727
Disposals	-	(1,001)	(36)	(833)	-	(1,870)
At 31 December 2011	9,384	63,604	40,027	3,001	-	116,016
Net book value:						
At 31 December 2011	201,725	16,359	11,199	1,452	-	230,735
At 31 December 2010	203,104	13,982	8,310	1,886	-	227,282

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

14 Customers' deposits

The analysis of customers' deposits is as follows:

	2011	2010
	AED'000	AED'000
Current and other accounts	3,066,918	3,376,180
Saving accounts	1,462,118	1,440,798
Time deposits	10,411,107	9,560,349
	14,940,143	14,377,327
	=====	=====

15 Deposits and balances due to banks

The analysis of Deposits and balances due to banks is as follows:

	2011	2010
	AED'000	AED'000
Demand	126,659	175,319
Time	338,992	248,660
	465,651	423,979
	=====	=====
Due to banks represent due to:		
Banks in the U.A.E.	91,825	336
Banks outside the U.A.E.	373,826	423,643
	465,651	423,979
	=====	=====

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

16 Other liabilities

	2011	2010
	AED'000	AED'000
Acceptances- contra	599,692	609,122
Provision for employees' end of service benefits	59,751	53,442
Interest payable	68,417	73,944
Unearned income	22,495	49,621
Managers' cheques	6,580	8,828
Other	76,467	75,535
	833,402	870,492
	=====	=====

The Bank reports under other liabilities, negative fair value of derivative contracts used by the Bank in the ordinary course of business. Refer to Note 12 for further details about the nature, and type of derivative contracts utilised by the Bank, together with the notional amounts and maturities.

The movement in the provision for employees' end of service benefits is as follows:

	2011	2010
	AED'000	AED'000
At 1 January	53,442	51,181
Charged during the year	8,254	22,960
Payments during the year	(1,945)	(20,699)
	59,751	53,442
	=====	=====

17 Syndicated loan

On 26 July 2011, the Bank signed a new USD 135 million (AED 496 million) syndicated term loan facility. The purpose of the facility is to finance general corporate activities. The facility has a tenor of two years and is payable at maturity. The facility carries an interest rate of one year LIBOR plus a margin of 150 basis points which is payable on a quarterly basis.

On 29 July 2011, a USD 150 million (AED 551 million) syndicated term loan facility matured and was settled.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

18 Issued and paid up capital and reserves

(a) Issued and paid up capital and treasury shares

	2011		2010	
	Number of shares	AED'000	Number of shares	AED'000
At 1 January	2,100,000,000	2,100,000	2,000,000,000	2,000,000
Bonus issue	-	-	100,000,000	100,000
Shares held in treasury	(126,500,000)	(230,602)	(1,414,444)	(2,657)
At 31 December	1,973,500,000	1,869,398	2,098,585,556	2,097,343

At the Annual General Meeting of the shareholders held on 6 March 2010, the shareholders approved in addition to the cash dividend a 5% bonus issue amounting to AED 100 million. Consequently, the Bank's paid up share capital was increased to AED 2.1 billion comprising of 2.1 billion shares of AED 1 each.

On 5 June 2010, the Board approved to buy back 10% of the Bank's outstanding shares. After obtaining the required regulatory approvals, the Bank started acquiring its shares on the open market. As of 31 December 2011, the Bank has acquired 126.5 million shares (31 December 2010: 1.41 million shares) at a cost of AED 231 million (31 December 2010: AED 2.66 million). As such the number of shares outstanding as of 31 December 2011 is 1.97 billion shares (31 December 2010: 2.09 billion shares).

(b) Statutory reserve

In accordance with the U.A.E Union Law, 10% of the profit for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the U.A.E. this level is 50% of the issued and paid up share capital).

(c) Contingency reserve

Contingency reserve is calculated at 10% of the profit for the year to be transferred to a contingency reserve until this reserve becomes 50% of the issued and paid up share capital.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

19 Earnings per share

Earnings per share are computed by dividing the profit for the year by the average number of shares outstanding during the year as follows:

	2011	2010
Basic earnings per share		
Profit attributable to owners of the parent company for the year (AED'000)	228,653	397,452
Weighted average number of shares outstanding during the year (in thousand)	2,037,611	2,099,529
Basic earnings per share (AED)	0.112	0.189

20 Dividends

At the Annual General Meeting of the shareholders held on 26 February 2011, the shareholders approved a cash dividend of AED 210 million representing AED 0.10 per share outstanding on 31 December 2010 (2010 : cash dividend AED 240 million representing AED 0.12 per outstanding share on 31 December 2009 and a 5% bonus issue amounting to AED 100 million).

The shareholders also approved Directors' remuneration of AED 7.5 million (2010: AED 7.5 million) and charity donations of AED 2.5 million (2010: AED 2.5 million). In addition to the above, an amount of AED 2.2 million was paid as Directors' remuneration to Emirates Lebanon Bank S.A.L., a subsidiary of the Bank (2010: AED 2.2 million).

In respect of the current year, the Board of Directors, in their meeting dated 14 February 2012, had proposed a cash dividend for distribution to the Shareholders of 10%.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

21 Commitments and contingent liabilities

	2011	2010
	AED'000	AED'000
Financial guarantees for loans	1,731,464	1,586,546
Other guarantees	1,477,125	1,962,350
Letters of credit	981,869	886,979
Capital commitments	104,333	104,333
	<hr/>	<hr/>
	4,294,791	4,540,208
Irrevocable commitments to extend credit	1,500,102	1,597,656
	<hr/>	<hr/>
	5,794,893	6,137,864
	<hr/> <hr/>	<hr/> <hr/>

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.

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. 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 zero or floating interest rates.

22 Cash and cash equivalents

	2011	2010
	AED'000	AED'000
Cash and balances with central banks (Note 5)	1,599,145	1,833,550
Deposits and balances due from banks (Note 6)	3,648,645	3,272,452
Deposits and balances due to banks (Note 15)	(465,651)	(423,979)
	<hr/>	<hr/>
	4,782,139	4,682,023
Less: Deposits and balances due from banks – maturity more than three months	(6,119)	(545,634)
Less: Statutory reserves with central banks (Note 5)	(909,504)	(874,964)
	<hr/>	<hr/>
	3,866,516	3,261,425
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

23 Fiduciary assets

The Bank holds investments amounting to AED 1.06 billion (31 December 2010: AED 1.23 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

24 Interest income

	2011	2010
	AED'000	AED'000
Loans and advances	984,595	984,296
Certificates of deposit and treasury bills with central banks	76,127	77,572
Placements with banks	16,698	6,203
	<hr/>	<hr/>
	1,077,420	1,068,071
	<hr/> <hr/>	<hr/> <hr/>

25 Interest expense

	2011	2010
	AED'000	AED'000
Customer deposits	522,401	498,430
Bank deposits	16,649	13,203
Syndicated Loan	10,819	6,388
	<hr/>	<hr/>
	549,869	518,021
	<hr/> <hr/>	<hr/> <hr/>

26 Net fee and commission income

	2011	2010
	AED'000	AED'000
Corporate banking credit related fees	35,534	30,250
Trade finance activities	32,667	30,413
Letters of guarantee	41,552	49,888
Other	3,614	10,626
	<hr/>	<hr/>
	113,367	121,177
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

27 Investment income

	2011	2010
	AED'000	AED'000
Dividends	32,651	5,810
Gain on sale of investments	977	547
Revaluation loss on investments	(29,454)	(12,011)
Other investment income	5,366	12,041
	9,540	6,387
	=====	=====

28 Net impairment charge on financial assets

	2011	2010
	AED'000	AED'000
Collective impairment of loans and advances	215,000	80,183
Specific provision of loans and advances	6,046	4,787
	221,046	84,970
Total charge for the year (Note 7)	221,046	84,970
Recoveries during the year	(9,166)	(9,507)
	211,880	75,463
Net impairment of loans and advances	211,880	75,463
	211,880	75,463
	=====	=====

29 General and administrative expenses

	2011	2010
	AED'000	AED'000
Salaries and employees related expenses	122,986	131,278
Depreciation on property and equipment	10,727	10,951
Other	51,201	51,148
	184,914	193,377
	=====	=====

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

30 Related party transactions

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

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

The related parties balances included in the consolidated statement of financial position and the significant transactions with related parties are as follows:

	2011	2010
	AED'000	AED'000
Loans and advances	1,764,005	1,908,688
Deposits	635,728	718,768
Letters of credit, guarantee and acceptances	1,281,849	1,008,338
Interest income	121,970	118,161
Interest expense	35,031	38,201
Key management compensation	15,250	21,980

The Board of Directors has proposed a remuneration of AED 7.5 million (2010: AED 7.5 million) for the Board Members. This is subject to the approval of the shareholders at the Annual General Meeting.

As at 31 December 2011, entities related to one of the directors accounted for 67% (2010: 53%) of the total aforementioned loans and advances, 65% (2010: 71%) of the total aforementioned deposits, 94% (2010: 92%) of the total aforementioned financial guarantees for loans.

31 Segmental information

31.1 IFRS 8 Operating Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14: *Segment Reporting*) required an entity to identify two segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. However, the business segments reported earlier as per the requirements of IAS 14 *Segment Reporting* are also used by the General Manager to allocate resources to the segments and to assess its performance.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

31 Segmental information (continued)

31.2 Products and services from which reportable segments derive their revenues

Information reported to the Bank's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focussed on the type of business activities undertaken as a Bank. For operating purposes, the Bank is organised into two major business segments:

- (i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
- (ii) Investment Banking, which involves the management of the Bank's investment portfolio.

The following table presents information regarding the Bank's operating segments for the year ended 31 December 2011:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
- Net interest income	495,702	31,849	-	527,551
- Net fee and commission income	113,367	-	-	113,367
- Exchange profit	23,648	-	-	23,648
- Investment income	-	9,540	-	9,540
- Net loss on investment properties revaluation	-	(22,844)	-	(22,844)
- Other income	16,819	-	-	16,819
Operating income	649,536	18,545	-	668,081
Other material non-cash items				
- Net impairment charge on financial assets	(211,880)	-	-	(211,880)
- Depreciation of property and equipment	-	-	(10,727)	(10,727)
- Amortization of intangible assets	(7,783)	-	-	(7,783)
Profit for the year after taxes	282,265	(8,033)	(20,434)	253,798
Segment assets	18,152,177	2,153,219	628,976	20,934,372
Segment liabilities	16,005,485	495,855	233,711	16,735,051
Additions to non-current assets	303,695	-	18,221	321,916

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

31 Segmental information (continued)

31.2 Products and services from which reportable segments derive their revenues (continued)

The following table presents information regarding the Bank's operating segments for the year ended 31 December 2010:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
- Net interest income	550,050	-	-	550,050
- Net fee and commission income	121,177	-	-	121,177
- Investment income	-	6,387	-	6,387
- Exchange profit	20,334	-	-	20,334
- Net loss on investment properties revaluation	-	(35,132)	-	(35,132)
- Other income	-	6,100	-	6,100
- Income from sale of associate and subsidiaries	-	19,523	-	19,523
Operating income	<u>691,561</u>	<u>(3,122)</u>	<u>-</u>	<u>688,439</u>
Other material non-cash items				
- Net impairment charge on financial assets	(75,463)	-	-	(75,463)
- Depreciation of property and equipment	-	-	(10,951)	(10,951)
- Amortization of intangible assets	(7,784)	-	-	(7,784)
Profit for the year after taxes	<u>453,612</u>	<u>(30,846)</u>	<u>(18,819)</u>	<u>403,947</u>
Segment assets	<u>18,095,118</u>	<u>2,200,474</u>	<u>322,088</u>	<u>20,617,680</u>
Segment liabilities	<u>15,410,428</u>	<u>550,950</u>	<u>261,370</u>	<u>16,222,748</u>
Additions to non-current assets	<u>-</u>	<u>-</u>	<u>30,140</u>	<u>30,140</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2010: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for resource allocation purpose. The accounting policies of the reportable segments are the same as the Bank's accounting policies described in note 3.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments except for property and equipment, goodwill and other intangibles and certain amounts included in other assets; and
- All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

31 Segmental information (continued)

31.3 Geographical information

The Bank operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'foreign').

The Bank's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Country of domicile AED'000	Foreign AED'000	Total AED'000
2011			
Operating income (from external customers)	<u>532,714</u>	<u>135,367</u>	<u>668,081</u>
Non-current assets	<u>904,287</u>	<u>295,333</u>	<u>1,199,620</u>
2010			
Operating income (from external customers)	<u>572,591</u>	<u>115,848</u>	<u>688,439</u>
Non-current assets	<u>738,325</u>	<u>266,757</u>	<u>1,005,082</u>

31.4 Information about major customers

In 2011, two customers accounted for more than 10% of the Bank's revenue from external customers and in 2010 two customers accounted for more than 10% of the Bank's revenues from external customers.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

32 Classification of financial assets & liabilities

- (a) The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2011:

	FVTPL AED'000	FVTOCI AED'000	Amortized cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	1,599,145	1,599,145
Deposits and balances due from banks	-	-	3,648,645	3,648,645
Loans and advances, net	-	-	12,039,325	12,039,325
Other financial assets measured at fair value	60,845	1,050,504	-	1,111,349
Other financial assets measured at amortized cost	-	-	736,597	736,597
Other assets	-	-	1,163,177	1,163,177
Total	60,845	1,050,504	19,186,889	20,298,238
Financial liabilities:				
Customers' deposits	-	-	14,940,143	14,940,143
Deposits and balances due to banks	-	-	465,651	465,651
Other liabilities	-	-	751,157	751,157
Syndicated loan	-	-	495,855	495,855
Total	-	-	16,652,806	16,652,806

- (b) The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2010:

	FVTPL AED'000	FVTOCI AED'000	Amortized cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	1,833,550	1,833,550
Deposits and balances due from banks	-	-	3,272,452	3,272,452
Loans and advances, net	-	-	12,106,840	12,106,840
Other financial assets measured at fair value	69,656	818,448	-	888,104
Other financial assets measured at amortized cost	-	-	902,530	902,530
Other assets	-	-	955,882	955,882
Total	69,656	818,448	19,071,254	19,959,358
Financial liabilities:				
Customers' deposits	-	-	14,377,327	14,377,327
Deposits and balances due to banks	-	-	423,979	423,979
Other liabilities	-	-	767,429	767,429
Syndicated loan	-	-	550,950	550,950
Total	-	-	16,119,685	16,119,685

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****33 Risk management**

The Bank has Senior Management committees to oversee the risk management. The Executive Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit risk. It also sets policies, system and limits for interest rate risk, foreign exchange risk, and liquidity risk. The Bank also has a Credit Risk function which independently reviews adherence to all risk management policies and processes. The Bank's internal audit function, which is part of risk review, primarily evaluates the effectiveness of the controls addressing operational risk. This function is outsourced to a regional accounting firm to ensure independence and objectivity.

Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and by limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

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

Policies relating to credit are reviewed and approved by the Bank's Executive Committee. All credit lines are approved in accordance with the Bank's credit policy set out in the Credit Policy Manual. Credit and Marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Bank further limits risk through diversification of its assets by economic and industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Risk and facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Bank's Executive Committee and are monitored by the Senior Management on a daily basis.

The Executive Committee is responsible for setting credit policy of the Bank. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****33 Risk management (continued)****Credit risk management (continued)***Commercial/Institutional lending underwriting:*

All credit applications for commercial and institutional lending are subject to the Bank's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Bank does not lend to companies operating in industries that are considered by the Bank inherently risky and where specialised industry knowledge is required. In addition, the Bank sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Bank are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Executive Committee or the Bank's Executive Director and General Manager under the supervision of the Board. At least two signatures are required to approve any commercial or institutional credit application.

Credit review procedures and loan classification

The Bank's Credit Risk department subjects the Bank's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and the Bank's internal policies in order to assist in the early identification of accrual and potential performance problems. The Credit Risk department validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and industry and monitors observance of all approved credit policies, guidelines and operating procedures across the Bank.

All commercial/institutional loan facilities of the Bank are assigned one of nine risk ratings (A-I) where A is being excellent and I being loss with no reimbursement capacity and total provisioning.

If a credit is impaired, interest suspended will not be credited to the income statement. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Bank also complies with IAS 39 and International Financial Reporting Standard 9 (IFRS 9), in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan. As required by Central Bank of the U.A.E. guidelines, the Bank takes the higher of the loan loss provisions required under IAS 39, IFRS 9 and Central Bank regulations.

Executive Committee (EC)

In addition to its credit related activity, the Executive Committee has a broad range of authority delegated by the Board of Directors to manage the Bank's asset and liability structure and funding strategy. The EC reviews liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The EC formulates liquidity risk management guidelines for the Bank's operation on the basis of such review.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33 Risk management (continued)

Credit risk management (continued)

Executive Committee (EC) (continued)

The Bank's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The EC members comprise of the Chairman, three Board Members, in addition to the Executive Director and General Manager. The EC meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous.

Maximum exposure to credit risk

	Loans and advances to customers	
	2011	2010
	AED'000	AED'000
Carrying amount		
<i>Individually impaired</i>		
Grade (H-I) - gross amount	333,281	310,825
<i>Neither past due nor impaired</i>		
Grade A	1,545,879	871,008
Grade B	5,611,458	6,317,197
Grade C	3,411,952	3,235,931
Grade D	1,329,606	1,579,887
Grade E	85,789	81,796
Grade F	-	-
	12,317,965	12,396,644
Past due but not impaired	510,621	271,499
Total carrying amount	12,828,586	12,668,143
Allowance for impairment (including interest in suspense)	(789,261)	(467,216)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is likely the collectibility of all principal and interest due according to the contractual terms of the loan/securities agreement(s) would be doubtful. These loans are graded H to I in the Bank's internal credit risk grading system.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for group of homogeneous assets with respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****33 Risk management (continued)****Credit risk management (continued)****Write-off policy**

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the Bank determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Bank holds collaterals against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Bank accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. Management has estimated the fair value of collaterals to be AED 10.5 billion (2010: AED 10.6 billion).

No collaterals are held against investment securities.

Liquidity risk management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

The Bank manages its liquidity in accordance with U.A.E. Central Bank requirements and the Bank's internal guidelines. The U.A.E. Central Bank sets cash ratio requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. The U.A.E. Central Bank also imposes a mandatory 1:1 utilisation ratio, whereby; loans and advances (combined with inter-bank placements having a remaining term of 'greater than three months) should not exceed stable funds as defined by the U.A.E. Central Bank. Stable funds are defined by the U.A.E. Central Bank to mean free-own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Bank diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash, cash equivalent, and readily marketable securities. The Executive Committee sets and monitors liquidity ratios and regularly revises and updates the Bank's liquidity management policies to ensure that the Bank would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Executive Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the Deputy General Manager and senior executives from treasury, finance, and investment departments.

The Bank's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Bank's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of short-term liquid assets to ensure liquidity is maintained within the Bank's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Executive Committee. The Daily Position sheet, which reports the liquidity and exchange positions of the Bank is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Executive Committee.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33 Risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2011 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
Assets					
Cash and balances with central banks	883,499	102,844	581,792	31,010	1,599,145
Deposits and balances due from banks	3,648,645	-	-	-	3,648,645
Loans and advances, net	6,487,859	1,391,057	4,096,462	63,947	12,039,325
Other financial assets measured at fair value	176,206	-	-	935,143	1,111,349
Other financial assets measured at amortized cost	78,974	72,002	585,621	-	736,597
Investment properties	-	-	-	126,821	126,821
Other assets	706,887	156,935	-	312,563	1,176,385
Property and equipment	-	-	-	230,735	230,735
Goodwill and other intangibles	-	-	-	265,370	265,370
Total assets	11,982,070	1,722,838	5,263,875	1,965,589	20,934,372
Liabilities and equity					
Customers' deposits	10,386,272	2,906,018	638,649	1,009,204	14,940,143
Deposits and balances due to banks	164,957	300,694	-	-	465,651
Other liabilities	694,716	-	34,656	104,030	833,402
Syndicated loan	-	-	495,855	-	495,855
Equity	-	-	-	4,199,321	4,199,321
Total liabilities and equity	11,245,945	3,206,712	1,169,160	5,312,555	20,934,372

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33 Risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2010 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
Assets					
Cash and balances with central banks	1,287,916	341,827	203,807	-	1,833,550
Deposits and balances due from banks	2,959,330	313,122	-	-	3,272,452
Loans and advances, net	7,081,916	1,530,090	3,494,834	-	12,106,840
Other financial assets measured at fair value	237,733	-	-	650,371	888,104
Other financial assets measured at amortized cost	34,416	200,649	667,465	-	902,530
Investment properties	-	-	-	149,665	149,665
Other assets	668,054	91,825	192,974	11,251	964,104
Property and equipment	-	-	-	227,282	227,282
Goodwill and other intangibles	-	-	-	273,153	273,153
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Total assets	12,269,365	2,477,513	4,559,080	1,311,722	20,617,680
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Liabilities and equity					
Customers' deposits	10,124,515	2,207,142	270,971	1,774,699	14,377,327
Deposits and balances due to banks	419,350	4,629	-	-	423,979
Other liabilities	788,318	21,954	51,353	8,867	870,492
Syndicated loan	-	550,950	-	-	550,950
Equity	-	-	-	4,394,932	4,394,932
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Total liabilities and equity	11,332,183	2,784,675	322,324	6,178,498	20,617,680
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**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33 Risk management (continued)

Market risk management

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into trading, or non-trading /banking book.

a) Market risk - trading book

The Executive Committee has set limits for acceptable level of risks in managing the trading book. The Bank maintains a well diversified portfolio. In order to manage the market risk in the trading book, the Bank carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management. Proprietary trading for the account of the Bank is managed by a proprietary trading limit with a stop-loss limit.

The Bank's trading book mainly comprises of equity instruments in companies listed on the U.A.E. exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Bank's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The Bank's trading portfolio is well-diversified in terms of economic activity with a beta of 2.15 (2010: 3.03) to the Global stock markets. The effect on the Bank's equity investments held in the trading book due to a reasonable possible change in U.A.E. equity indices, with all other variables held constant is as follows:

Market indices	31 December 2011		31 December 2010	
	Change in equity price %	Effect on income AED'000	Change in equity price %	Effect on income AED'000
Global stock markets	+ 1 %	1,241	+1%	2,241

b) Market risk – non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Bank uses simulation-modeling tools to periodically measure and monitor interest rate sensitivity. The results are monitored and analysed by the Senior Management. Since most of the Bank's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Bank's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33 Risk management (continued)

The Bank's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2011 was as follows:

	Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	3.27%	702,313	-	-	896,832	1,599,145
Deposits and balances due from banks	0.49%	3,304,956	-	-	343,689	3,648,645
Loans and advances, net	7.24%	11,423,185	90,472	-	525,668	12,039,325
Other financial assets - Debt securities	5.72%	3,145	-	-	736,597	739,742
Other financial assets - Equity instruments	-	-	-	-	1,108,204	1,108,204
Investment properties	-	-	-	-	126,821	126,821
Other assets	6.00%	91,824	-	86,627	997,934	1,176,385
Property and equipment, net	-	-	-	-	230,735	230,735
Goodwill and other intangibles	-	-	-	-	265,370	265,370
Total assets		15,525,423	90,472	86,627	5,231,850	20,934,372
Liabilities and equity						
Customers' deposits	3.09%	8,706,850	3,689,951	-	2,543,342	14,940,143
Deposits and balances due to banks	0.58%	109,054	193,047	-	163,550	465,651
Other liabilities	-	-	-	-	833,402	833,402
Syndicated loan	1.94%	495,855	-	-	-	495,855
Equity	-	-	-	-	4,199,321	4,199,321
Total liabilities and equity		9,311,759	3,882,998	-	7,739,615	20,934,372
On statement of financial position gap		6,213,664	(3,792,526)	86,627	(2,507,765)	-
Cumulative interest rate sensitivity gap		6,213,664	2,421,138	2,507,765	-	-

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33 Risk management (continued)

The Bank's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2010 was as follows:

	Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	1.47%	1,017,228	-	-	816,322	1,833,550
Deposits and balances due from banks	0.47%	2,994,340	70,263	-	207,849	3,272,452
Loans and advances, net	7.20%	11,382,737	169,567	-	554,536	12,106,840
Other financial assets - Debt securities	5.13%	150,000	-	-	752,629	902,629
Other financial assets - Equity instruments	-	-	-	-	888,005	888,005
Investment properties	-	-	-	-	149,665	149,665
Other assets	6.00%	-	260,178	-	703,926	964,104
Property and equipment, net	-	-	-	-	227,282	227,282
Goodwill and other intangibles	-	-	-	-	273,153	273,153
Total assets		15,544,305	500,008	-	4,573,367	20,617,680
Liabilities and equity						
Customers' deposits	3.63%	9,897,465	2,104,777	-	2,375,085	14,377,327
Deposits and balances due to banks	1.83%	381,342	9,397	-	33,240	423,979
Other liabilities	-	-	-	-	870,492	870,492
Syndicated loan	1.79%	550,950	-	-	-	550,950
Equity	-	-	-	-	4,394,932	4,394,932
Total liabilities and equity		10,829,757	2,114,174	-	7,673,749	20,617,680
On statement of financial position gap		4,714,548	(1,614,166)	-	(3,100,382)	-
Cumulative interest rate sensitivity gap		4,714,548	3,100,382	3,100,382	-	-

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33 Risk management (continued)

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest bearing items. The rate is a historical rate for a fixed rate instrument carried at amortized cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Bank's consolidated income statement or equity. The sensitivity of the income 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 held as at 31 December 2011, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at 31 December 2011 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.

2011 Currency	Increase In basis	Sensitivity of interest income	Sensitivity of Equity				Total 2011
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
AED	+25	9,696	-	-	-	-	9,696
USD	+25	(2,714)	-	-	-	-	(2,714)
Others	+25	(311)	-	-	-	-	(311)

2010 Currency	Increase In basis	Sensitivity of interest income	Sensitivity of Equity				Total 2010
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
AED	+25	8,437	-	-	-	-	8,437
USD	+25	(792)	-	-	-	-	(792)
Others	+25	(1,097)	-	-	-	-	(1,097)

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33 Risk management (continued)

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Bank takes on foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As of 31 December 2011, the Bank's net currency position was not material, and all the positions were within limits approved by the Executive Committee. The table below shows the foreign currencies to which the Bank has a significant exposure to:

	2011 AED'000 equivalent long (short)	2010 AED'000 equivalent long (short)
US Dollar	(286,863)	(23,735)
Euro	(3,653)	(25,659)

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in income statement or equity; whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

(AED'000)			
Currency exposure as at 31 December 2011	Change in currency rate in %	Change on net profit	Change on Equity
USD	+5%	(14,383)	-
EUR	+5%	(183)	-
(AED'000)			
Currency exposure as at 31 December 2010	Change in currency rate in %	Change on net profit	Change on Equity
USD	+5%	(1,187)	-
EUR	+5%	(1,283)	-

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33 Risk management (continued)

iii) Equity price risk

Equity price risk refers to the risk of a decrease in the fair value of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's quoted equity investments held as financial assets at FVTOCI due to reasonable possible change in equity prices, with all other variables held constant is as follows:

Market indices	31 December 2011		31 December 2010	
	Change in equity price %	Effect on equity AED'000	Change in equity price %	Effect on equity AED'000
Global stock markets	+ 1 %	2,480	+1%	5,415

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, and may have legal or regulatory implications, or lead to financial losses. The Bank would not be able to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank could minimise the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

34 Capital adequacy and capital management

Capital management process

The Bank's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, 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 authority on a quarterly basis.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

34 Capital adequacy and capital management (continued)

Capital management process (continued)

The U.A.E. Central Bank vide its circular No.27/2009 dated 17 November 2009 informed all the Banks operating in the U.A.E. to implement the Standardised Approach of Basel II from the date of the circular. For credit and market risks, the Central Bank has issued draft guidelines for implementation of the Standardised Approach and banks are expected to comply and report under Pillar 2- Internal Capital Adequacy Assessment Process (ICAAP) requirements by 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. The capital adequacy ratio required under Basel II is 12% to be maintained at all times.

The ratios calculated in accordance with Basel II are as follows:

	Basel II	
	2011	2010
	AED'000	AED'000
Tier 1 capital		
Share capital	2,100,000	2,100,000
Shares held in treasury	(230,602)	(2,657)
Statutory reserve	1,085,357	1,085,357
Contingency and additional reserves	382,468	359,603
Retained earnings	618,820	640,436
Non-controlling interest in equity of subsidiaries	248,225	223,647
Goodwill and other intangibles	(265,370)	(273,153)
	3,938,898	4,133,233
Tier 2 capital		
Collective impairment allowance on loans and advances	224,887	212,402
Cumulative change in fair value	(4,947)	(11,454)
	219,940	200,948
Total regulatory capital	4,158,838	4,334,181
Risk-weighted assets:		
Credit risk	17,019,190	16,422,210
Market risk	94,797	156,942
Operational risk	876,971	888,676
Total risk-weighted assets	17,990,958	17,467,828
Capital adequacy ratio	23.12%	24.81%

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

35 Fair value of financial instruments

Investments held at fair value through profit and loss

Investments held for trading represent investment securities that present the Bank with opportunity for returns through dividend income and trading gains. The fair values of these investments are based on quoted prices at close of business as of 31 December 2011.

Unquoted investments held at fair value through other comprehensive income

The consolidated financial statements include holdings in unquoted securities amounting to AED 935 million (2010: AED 650 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

For determining the fair value of those investments that are valued using the discounted cash flow analysis, a long term earnings growth factor of 2% and risk adjusted discount or capitalisation rates in the range of 14% to 20% were used. If the long term earnings growth factor were 100 basis points higher/lower while all other variable were held constant, then the carrying amount of the shares would increase/decrease by AED 2.9 million (2010: AED 2.44 million). Similarly, if the risk adjusted discount or capitalisation rates were 100 basis points higher/lower while all other variables were held constant, then the fair value of the securities would decrease/increase by AED 6.4 million (2010: AED 5.3 million).

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/lower while all other variables were held constant, then the fair value of the securities would increase/decrease by AED 34 million (2010: AED 22 million).

The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair value in equity.

Fair value of financial assets carried at amortized cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost in the consolidated financial statements approximate their fair values.

	2011		2010	
	Carrying amount AED'000	Fair Value AED'000	Carrying amount AED'000	Fair value AED'000
<i>Financial assets</i>				
- Other financial assets measured at amortized cost	736,597	742,216	902,530	920,465
	=====	=====	=====	=====

The fair value for other financial assets measured at amortized cost is based on market prices.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

35 Fair value of financial instruments (continued)

Fair value of financial assets carried at amortized cost (continued)

Fair value measurements recognised in the consolidated statement of financial position

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

- 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 (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted 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).

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2011				
<i>Other financial assets measured at fair value</i>				
Investment measured at FVTPL				
-Quoted equity	57,700	-	-	57,700
-Debt	-	3,145	-	3,145
<i>Investments carried at FVTOCI</i>				
Quoted equity	115,362	-	-	115,362
Unquoted equity	-	-	935,142	935,142
Total	173,062	3,145	935,142	1,111,349
<i>Other assets</i>				
Positive fair value of derivatives	-	132	-	132
At 31 December 2010				
<i>Other financial assets measured at fair value</i>				
Investment measured at FVTPL				
-Quoted equity	69,557	-	-	69,557
-Debt	-	99	-	99
<i>Investments carried at FVTOCI</i>				
Quoted equity	168,077	-	-	168,077
Unquoted equity	-	-	650,371	650,371
Total	237,634	99	650,371	888,104
<i>Other assets</i>				
Positive fair value of derivatives	-	59	-	59

There were no transfers between Level 1 and Level 2 during the current year.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

35 Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurements of other financial assets measured at FVTOCI:

	2011	2010
	AED'000	AED'000
Opening balance	650,371	573,783
Effect of change in the accounting policy for financial instruments (IFRS 9)	-	18,974
Additions during the year	238,242	28,515
Gains recognised in other comprehensive income	46,529	29,099
	<hr/>	<hr/>
Closing balance	935,142	650,371
	<hr/> <hr/>	<hr/> <hr/>

36 Disposal of business

In December 2010, the Bank disposed off its investment in Ginco Steel L.L.C and Polyco L.L.C two wholly-owned subsidiaries of the Bank that were previously acquired as part of settlement of bad debts and were disposed as they were considered as not related to the Bank's core activity and as such viewed by management as non strategic.

Details of the disposal are as follows:

	Net carrying value AED'000
Carrying value of net assets disposed	10,366
Gain on disposal	12,097
	<hr/>
Total consideration	22,463
	<hr/> <hr/>

During 2010, the Bank also liquidated its investment in Wifco Financial Brokerage L.L.C., a wholly-owned subsidiary. The Company was liquidated at the book value of the investment of AED 4.5 million at no additional loss or gain.

Again during 2010 the Bank sold its 35% share of the equity of an associate. The principal business activity of this Company was land development in prime industrial areas within the U.A.E. The proceeds from the sale were AED 87.5 million and the Bank's share of the net assets at the point of sale amounted to AED 80.01 million resulting in a gain of AED 7.4 million.

Finally, during the last quarter of 2010, the Bank has completed the legal transfer of 30% equity stake in Emirates Lebanon Bank S.A.L. to EL Capital FZC that was initiated back in 2008.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****37 Comparative amounts**

The Bank had adopted IFRS 9 Financial Instruments (IFRS 9) in 2010 in advance of its effective date. The Bank had chosen December 31 2010 as its date of initial application (i.e. the date on which the Bank has assessed its existing financial assets). The Standard has been applied retrospectively and as permitted by IFRS 9, comparative amounts have not been restated.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

Debt instruments are measured at amortized cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss (FVTPL). Additionally, even if the asset meets the amortized cost criteria the entity may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Only financial assets that are classified as measured at amortized cost are tested for impairment.

All derivatives, including embedded derivatives that are embedded in financial liabilities or host contracts outside the scope of IAS 39 that are separately accounted for, are classified FVTPL, except if designated in an effective cash flow hedge or hedge of a foreign operation hedge accounting relationship. In accordance with IFRS 9, embedded derivatives within the scope of that Standard are not separately accounted for financial assets.

Investments in equity instruments are classified and measured as at FVTPL except if the equity investment is not held for trading and is designated by the Bank as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

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

- the Bank's investments in debt instruments meeting the required criteria are measured at amortized cost;
- the Bank's equity investments not held for trading have been designated as at FVTOCI; and
- the Bank's remaining investments in equity investments and debt instruments are measured at FVTPL.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

37 Comparative amounts (continued)

The impact of this change in accounting policy at the beginning of the previous year (as at 1 January 2010) had been to increase retained earnings opening balance by AED 98.4 million and to decrease investments revaluation reserves opening balance by AED 110.8 million as follows:

	Retained earnings AED'000	Investment revaluation reserves AED'000
<i>Due to reclassification of financial assets to:</i>		
Financial assets measured at FVTOCI	98,400	(98,400)
Financial assets measured at amortized cost	-	(12,405)
	<hr/> 98,400 <hr/>	<hr/> (110,805) <hr/>

38 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 14 February 2012.