

Bank of Sharjah P.S.C.

**Review report and
interim financial information
for the six months period ended 30 June 2013**

Bank of Sharjah P.S.C.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of **Bank of Sharjah P.S.C.** (the “Bank”) and its subsidiaries (the “Group”) as at 30 June 2013, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months period then ended. Management of the Group is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 - “*Interim Financial Reporting*” (“IAS 34”). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

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

Deloitte & Touche (M.E.)

Anis Sadek
Registration No. 521
25 July 2013

**Condensed consolidated statement of financial position
as at 30 June 2013**

	Notes	30 June 2013 (unaudited) AED'000	31 December 2012 (audited) AED'000
ASSETS			
Cash and balances with central banks	8	2,415,860	2,738,642
Deposits and balances due from banks	9	3,894,195	3,726,026
Loans and advances, net	10	12,895,195	12,444,339
Other financial assets measured at fair value	11	1,110,476	1,069,913
Other financial assets measured at amortized cost	11	525,777	746,434
Investment property		237,001	230,821
Goodwill and other intangibles		253,694	257,586
Other assets	12	1,079,552	1,347,998
Property and equipment		261,724	270,929
Total assets		22,673,474	22,832,688
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	13	16,644,129	16,476,374
Deposits and balances due to banks	14	394,342	445,512
Other liabilities		1,077,659	1,232,898
Syndicated loan	15	495,855	495,855
Total liabilities		18,611,985	18,650,639
Equity			
Capital and reserves			
Share capital		2,100,000	2,100,000
Treasury shares	16	(327,792)	(327,792)
Statutory reserve		1,085,357	1,085,357
Contingency reserve		378,738	378,738
General reserve		92,999	62,565
Investment fair value reserve		129,425	106,134
Retained earnings		406,757	519,305
Attributable to owners of the Parent		3,865,484	3,924,307
Non-controlling interests		196,005	257,742
Total equity		4,061,489	4,182,049
Total liabilities and equity		22,673,474	22,832,688

.....
Mr. Ahmed Al Noman
Chairman

.....
Mr. Mario Tohme
Deputy General Manager

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

**Condensed consolidated income statement (unaudited)
for the six months period ended 30 June 2013**

	Three months period ended 30 June		Six months period ended 30 June	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Interest income	252,309	246,044	501,241	497,983
Interest expense	(106,061)	(119,183)	(239,107)	(239,721)
Net interest income	146,248	126,861	262,134	258,262
Net fee and commission income	30,087	26,018	63,516	52,043
Exchange profit	6,025	5,616	11,790	11,309
Investment income/(loss)	10,933	(8,413)	12,669	1,393
Other income	13,353	1,254	16,891	3,320
Net gain on investment property revaluation	6,180	-	6,180	-
Operating income	212,826	151,336	373,180	326,327
Net impairment charge on financial assets	(76,686)	(31,557)	(108,104)	(91,753)
Net operating income	136,140	119,779	265,076	234,574
Amortization of intangible assets	(1,946)	(1,946)	(3,892)	(3,892)
General and administrative expenses	(57,472)	(50,164)	(111,794)	(100,877)
Profit before taxes	76,722	67,669	149,390	129,805
Income tax expense - overseas	(2,874)	(2,673)	(5,245)	(4,748)
Profit for the period	73,848	64,996	144,145	125,057
Attributable to:				
Owners of the parent	70,928	60,597	137,118	117,380
Non-controlling interests	2,920	4,399	7,027	7,677
Profit for the period	73,848	64,996	144,145	125,057
Basic earnings per share (AED) (Note 17)	0.037	0.031	0.064	0.054

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

**Condensed consolidated statement of comprehensive income (unaudited)
for the six months period ended 30 June 2013**

	Three months period ended 30 June		Six months period ended 30 June	
	2013	2012	2013	2012
	AED'000	AED'000	AED'000	AED'000
Profit for the period	73,848	64,996	144,145	125,057
Other comprehensive income/(loss)				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Net changes in fair value of financial assets measured at FVTOCI	15,632	(18,316)	23,291	(1,271)
Charity donations appropriated during the period	-	-	(2,500)	(2,500)
Directors' remuneration paid during the period	-	-	(10,587)	(10,585)
Other comprehensive income/(loss) for the period	15,632	(18,316)	10,204	(14,356)
Total comprehensive income for the period	89,480	46,680	154,349	110,701
Attributable to:				
Owners of the parent	86,562	42,282	147,939	104,032
Non-controlling interests	2,918	4,398	6,410	6,669
Total comprehensive income for the period	89,480	46,680	154,349	110,701

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

**Condensed consolidated statement of changes in equity
for the six months period ended 30 June 2013**

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Contingency reserve AED'000	General reserve AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Attributable to owners of the parent AED'000	Non- controlling interests AED'000	Total equity AED'000
Balance at 1 January 2012 (audited)	2,100,000	(230,602)	1,085,357	352,078	30,390	(4,947)	618,820	3,951,096	248,225	4,199,321
Profit for the period	-	-	-	-	-	-	117,380	117,380	7,677	125,057
Other comprehensive income/(loss)	-	-	-	-	-	86,891	(100,239)	(13,348)	(1,008)	(14,356)
Total comprehensive income for the period	-	-	-	-	-	86,891	17,141	104,032	6,669	110,701
Transfer to reserves	-	-	-	-	32,175	-	(32,175)	-	-	-
Treasury shares acquired during the period	-	(97,190)	-	-	-	-	-	(97,190)	-	(97,190)
Dividends paid (Note 16)	-	-	-	-	-	-	(193,500)	(193,500)	-	(193,500)
Balance at 30 June 2012 (unaudited)	2,100,000	(327,792)	1,085,357	352,078	62,565	81,944	410,286	3,764,438	254,894	4,019,332
Balance at 1 January 2013 (audited)	2,100,000	(327,792)	1,085,357	378,738	62,565	106,134	519,305	3,924,307	257,742	4,182,049
Profit for the period	-	-	-	-	-	-	137,118	137,118	7,027	144,145
Other comprehensive income/(loss)	-	-	-	-	-	23,291	(12,470)	10,821	(617)	10,204
Total comprehensive income for the period	-	-	-	-	-	23,291	124,648	147,939	6,410	154,349
Transfer to reserves	-	-	-	-	30,434	-	(30,434)	-	-	-
Dividends (Note 16)	-	-	-	-	-	-	(193,500)	(193,500)	(7,713)	(201,213)
Allocation to non-controlling interest [Note 6(a)]	-	-	-	-	-	-	(11,147)	(11,147)	11,147	-
Acquisition of non-controlling interest of a subsidiary [Note 6(a)]	-	-	-	-	-	-	(2,115)	(2,115)	(71,581)	(73,696)
Balance at 30 June 2013 (unaudited)	2,100,000	(327,792)	1,085,357	378,738	92,999	129,425	406,757	3,865,484	196,005	4,061,489

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

**Condensed consolidated statement of cash flows (unaudited)
for the six months period ended 30 June 2013**

	Six months period ended 30 June	
	2013 AED'000	2012 AED'000
OPERATING ACTIVITIES		
Profit for the period	144,145	125,057
Adjustments for:		
Depreciation of property and equipment	10,724	5,364
Amortisation of other intangibles	3,892	3,892
Amortisation of discount and premium on receivables and investments	2,081	(966)
Loss/(gain) on disposal of property and equipment	28	(455)
Fair value (gain)/loss on trading investments and derivatives	(9,582)	7,282
Fair value gain on investment property	(6,180)	-
Net impairment charge on financial assets	108,104	91,753
Payment of directors' remuneration and charity donation	(13,085)	(13,085)
Operating profit before changes in working capital	240,127	218,842
Increase in deposits and due from banks maturity more than three months	(299,773)	(165,910)
Increase in statutory reserves with central banks	(17,011)	(36,632)
Increase in loans and advances	(558,960)	(101,405)
Decrease/(increase) in other assets	268,446	(205,820)
Increase in customers' deposits	167,755	91,269
(Decrease)/increase in other liabilities	(155,239)	175,127
Net cash used in operating activities	(354,655)	(24,529)
INVESTING ACTIVITIES		
Purchases of property and equipment	(1,569)	(8,374)
Proceeds from disposal of property and equipment	22	1,575
Purchase of investments	(23,454)	(82,130)
Proceeds from disposal of investments	234,338	138,030
Acquisition of non-controlling interest of a subsidiary	(73,696)	-
Net cash generated from investing activities	135,641	49,101
FINANCING ACTIVITIES		
Treasury shares acquired	-	(97,190)
Dividends paid	(201,213)	(193,500)
Net cash used in financing activities	(201,213)	(290,690)
Decrease in cash and cash equivalents	(420,227)	(266,118)
Cash and cash equivalents at the beginning of the period	4,373,539	3,866,516
Cash and cash equivalents at the end of the period (Note 19)	3,953,312	3,600,398

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

**Notes to the condensed consolidated financial statements
for the six months period ended 30 June 2013****1. General information**

Bank of Sharjah P.S.C. (the “Bank”), a public shareholding company, was incorporated by an Emiri 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 from 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 five branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi and the City of Al Ain.

2. Basis of preparation

The condensed consolidated financial statements of the Bank and its subsidiaries (together referred to as the “Group”) are prepared in accordance with the International Accounting Standard No. 34 - Interim Financial Reporting issued by the International Accounting Standards Board and also comply with the applicable requirements of the laws in the U.A.E.

The condensed consolidated financial statements are presented in U.A.E. Dirhams (AED) as that is the currency in which the majority of the Group’s transactions are denominated.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2012.

These condensed consolidated financial statements do not include all the information required in full consolidated financial statements and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2012. In addition, results for the period from 1 January 2013 to 30 June 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

3. Application of new and revised International Financial Reporting Standards (“IFRSs”)**3.1 New and revised IFRSs applied with no material effect on the condensed financial statements**

The following revised IFRSs have been adopted in these condensed financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 1 Government Loans provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance to government loans outstanding at the date of transition to IFRSs.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* enhancing disclosures about offsetting of financial assets and liabilities.
- IFRS 10 *Consolidated Financial Statements* 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 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures** have been amended for the issuance of IFRS 10.

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

**3. Application of new and revised International Financial Reporting Standards (“IFRSs”)
(continued)**

**3.1 New and revised IFRSs applied with no material effect on the condensed financial statements
(continued)**

- IFRS 11 *Joint Arrangements* 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 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11.
- IFRS 12 *Disclosure of Interests in Other Entities** combines the disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard.
- IFRS 13 *Fair Value Measurement* issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.
- Amendments to IAS 1 - *Presentation of Other Comprehensive Income*. 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 grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.
- Amendments to IAS 19 *Employee Benefits* eliminate the “corridor approach” and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.
- Amendments to IFRS 7: *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.
- Annual Improvements to *IFRSs 2009 - 2011 Cycle*:

The annual improvements include the amendments to five IFRSs which have been summarized below:

- IFRS 1 *First Time Adoption of International Financial Reporting Standards* - Repeated application of IFRS 1
- IFRS 1 *First Time Adoption of International Financial Reporting Standards* - Borrowing costs
- IAS 1 *Presentation of Financial Statements* - Clarification of the requirements for comparative information
- IAS 16 *Property, Plant and Equipment* - Classification of serving equipment
- IAS 32 *Financial Instruments: Presentation* - Tax effect of the distribution to the holders of equity instruments.
- IAS 34 *Interim Financial Reporting* - Interim financial reporting and segment information for total assets and liabilities

3.2 Amendments to IFRSs affecting presentation and disclosure only

The following revised IFRSs have been adopted in these condensed financial statements. The application of these revised IFRSs has affected the presentation and disclosure only and did not result in any impact on the reported amounts.

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

3. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)

3.2 Amendments to IFRSs affecting presentation and disclosure only (continued)

- Amendments to IAS 1 *Presentation of Financial Statements*

The amendments require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

- Amendments to IAS 34 *Interim Financial Reporting*

The amendments require additional disclosures for the fair value of the financial instruments as required by IFRS 13 *Fair Value Measurement* and IFRS 7 *Financial Instruments*.

3.3 New and revised standards and interpretations are in issue but not yet effective

The Group has not applied the following new and revised standards and interpretation that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
• Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
• Amendments to IFRS 10, IFRS 12 and IAS 27 - Guidance on Investment Entities	1 January 2014

Management anticipates that the adoption of the above standards in future years will have no material impact on the condensed financial statements of the Group in the period of initial application.

4. Judgments and estimates

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

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

5. Financial risk management

The Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2012.

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

6. Summary of significant accounting policies

As required by the Securities and Commodities Authority of the U.A.E. (“SCA”) Notification No. 2624/2008 dated 12 October 2008, certain required accounting policies have been disclosed in the condensed consolidated financial statements.

a) Basis of consolidation

The condensed consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. 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 interim condensed consolidated financial statements comprise the financial statements of the Bank and of the following subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All significant inter-group balances, income and expense items are eliminated on consolidation.

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/payable or received/receivable is recognised directly in equity and attributed to owners of the Parent.

The Bank’s interests, held directly or indirectly, in the subsidiaries are as follows:

Name of Subsidiary	Proportion of ownership interest		Year of incorporation	Country of incorporation	Principal activities
	2013	2012			
Emirates Lebanon Bank S.A.L.	80%*	67.33%	1965	Lebanon	Financial institution
BOS Real Estate FZC	100%	100%	2009	U.A.E.	Real estate development activities
BOS Capital FZC	100%	100%	2009	U.A.E.	Investment of own financial resources
Polyco General Trading L.L.C.	100%	100%	2008	U.A.E.	General trading
Borealis Gulf FZC	100%	100%	2011	U.A.E.	Real estate development activities

*During the period, the Bank increased its shareholding in Emirates Lebanon Bank S.A.L. through acquiring the shares of a non-controlling interest. This transaction increased the Bank’s equity in Emirates Lebanon Bank S.A.L. to 80% and the difference between the fair value and the carrying amount of non-controlling interest acquired is recognised in retained earnings. The consideration paid to acquire the non-controlling interest is AED 73.7 million and carrying amount of the acquired share is AED 71.6 million, the difference between the consideration paid and the carrying amount of the acquired shares amounting to AED 2.1 million was recognised directly in retained earnings. Additionally, as a result of this transaction, a further AED 11.15 million was reallocated from retained earnings of the group to non-controlling interests.

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

6. Summary of significant accounting policies (continued)

b) Investment property

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 reflected at fair value at the condensed consolidated statement of financial position date. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the condensed consolidated income statement in the period in which these gains or losses arise.

7. Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated income statement for the six months period ended 30 June 2013 and 2012.

8. Cash and balances with central banks

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

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Cash on hand	63,571	69,723
Statutory deposits	954,203	937,192
Current account	79,347	166,760
Certificates of deposits	1,318,739	1,564,967
	<u>2,415,860</u>	<u>2,738,642</u>
	=====	=====

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

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Banks abroad	1,250,779	1,362,013
Banks in the U.A.E.	1,165,081	1,376,629
	<u>2,415,860</u>	<u>2,738,642</u>
	=====	=====

The statutory deposits with the central banks are not available to finance the day-to-day operations of the Group. 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 at 30 June 2013, the statutory deposit with the Central Bank of the U.A.E. amounted to AED 422 million (31 December 2012: AED 378 million).

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

9. Deposits and balances due from banks

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

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Demand	623,730	716,841
Time	3,270,465	3,009,185
	<u>3,894,195</u>	<u>3,726,026</u>
	=====	=====

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

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Banks abroad	1,045,923	841,688
Banks in the U.A.E.	2,848,272	2,884,338
	<u>3,894,195</u>	<u>3,726,026</u>
	=====	=====

10. Loans and advances, net

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

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Overdrafts	6,954,943	6,408,389
Commercial loans	5,673,478	5,838,064
Bills receivable	264,515	427,880
Other advances	1,092,964	740,683
	<u>13,985,900</u>	<u>13,415,016</u>
Less: Allowance for doubtful loans and advances	(947,615)	(844,053)
Less: Interest in suspense	(143,090)	(126,624)
	<u>12,895,195</u>	<u>12,444,339</u>
	=====	=====

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

10. Loans and advances, net (continued)

(b) The loans and advances of the Group are as follows:

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Loans and advances in the U.A.E.	11,510,110	11,186,335
Loans and advances outside the U.A.E.	2,475,790	2,228,681
	13,985,900	13,415,016
	=====	=====

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

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Balance at the beginning of the period/year	844,053	683,260
Reversal through credit extension premium	(2,223)	(18,497)
Additions during the period/year	112,420	182,223
Write offs	(3,035)	(332)
Recoveries	(3,600)	(2,601)
Balance at the end of the period/year	947,615	844,053
	=====	=====

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

11. Other financial assets

Other financial assets of the Group as at 30 June 2013 classified in accordance with IFRS 9 are as follows:

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equities	52,836	43,528
Debt securities	992	930
	<u>53,828</u>	<u>44,458</u>
(ii) Investments carried at FVTOCI		
Quoted equities	94,907	72,902
Unquoted equities	961,741	952,553
	<u>1,056,648</u>	<u>1,025,455</u>
Total other financial assets measured at fair value	<u>1,110,476</u>	<u>1,069,913</u>
Other financial assets measured at amortized cost		
Debt securities	525,777	746,434
Total other financial assets	<u>1,636,253</u>	<u>1,816,347</u>

The composition of the other financial assets portfolio by geography is as follows:

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
United Arab Emirates	178,411	300,592
G.C.C. countries (other than U.A.E.)	4,774	4,774
Middle East (other than G.C.C. countries)	1,445,920	1,505,674
Europe	7,148	5,307
	<u>1,636,253</u>	<u>1,816,347</u>

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

12. Other assets

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Acceptances - contra	821,639	987,308
Assets acquired in settlement of debt	185,956	185,956
Receivable from sale of investments	-	91,825
Clearing receivables	12,736	29,372
Interest receivable	4,358	6,878
Prepayments	14,652	8,918
Positive fair value of derivatives	321	363
Other	39,890	37,378
	1,079,552	1,347,998
	=====	=====

13. Customers' deposits

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Current and other accounts	3,922,978	3,461,747
Saving accounts	1,539,672	1,511,482
Time deposits	11,181,479	11,503,145
	16,644,129	16,476,374
	=====	=====

14. Deposits and balances due to banks

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Demand	298,952	218,514
Time	95,390	226,998
	394,342	445,512
	=====	=====
Due to banks represent due to:		
Banks in the U.A.E.	212,115	157,000
Banks outside the U.A.E.	182,227	288,512
	394,342	445,512
	=====	=====

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

15. Syndicated loan

On 26 July 2011, the Bank signed a 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.

16. Dividend and treasury shares

Dividends

At the Annual General Meeting of the shareholders held on 16 March 2013, the shareholders approved a cash dividend of AED 0.10 per outstanding share (2012: cash dividend of AED 0.10 per outstanding share). In addition to the above, an amount of AED 29.4 million cash dividend was approved by the shareholders of Emirates Lebanon Bank S.A.L., at the Annual General Meeting of the shareholders held on 8 February 2013, a subsidiary of the Bank (2012: Nil) out of which the non-controlling interest share amounted to AED 7.7 million (2012: Nil).

The shareholders also approved Directors' remuneration of AED 7.5 million (2012: AED 7.5 million) and charity donations of AED 2.5 million (2012: AED 2.5 million). In addition to the above, an amount of AED 3.1 million was paid as Directors' remuneration to Emirates Lebanon Bank S.A.L., a subsidiary of the Bank (2012: AED 3.1 million). Further, the shareholders approved to transfer AED 23.3 million to the general reserve (2012: AED 32.1 million), and additional AED 7.1 million were allocated to the general reserve at the subsidiary level "Emirates Lebanon Bank S.A.L.".

Treasury shares

As at 30 June 2013, the market value of the treasury shares is AED 261 million (31 December 2012: AED 211 million).

17. Earnings per share

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

	Three months period ended 30 June		Six months period ended 30 June	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Basic earnings per share				
Profit attributable to owners of the parent for the period (AED'000)	70,928	60,597	137,118	117,380
Charity donations (AED'000)	-	-	(2,500)	(2,500)
Directors remunerations (AED'000)	-	-	(9,970)	(9,968)
	70,928	60,597	124,648	104,912
Weighted average number of shares outstanding during the period (in thousands)	1,935,000	1,935,000	1,935,000	1,938,208
Basic earnings per share (AED)	AED 0.037	AED 0.031	AED 0.064	AED 0.054

As at 30 June 2013 and 30 June 2012, there were no potential dilutive shares outstanding.

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

18. Commitments and contingent liabilities

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Financial guarantees for loans	1,620,193	1,618,864
Other guarantees	1,620,978	1,393,331
Letters of credit	1,682,974	1,055,267
Capital commitments	104,333	104,333
	<hr/>	<hr/>
	5,028,478	4,171,795
Irrevocable commitments to extend credit	1,398,934	1,542,500
	<hr/>	<hr/>
	6,427,412	5,714,295
	<hr/> <hr/>	<hr/> <hr/>

19. Cash and cash equivalents

	30 June 2013 AED'000 (unaudited)	30 June 2012 AED'000 (unaudited)
Cash and balances with central banks (Note 8)	2,415,860	1,850,148
Deposits and balances due from banks (Note 9)	3,894,195	3,332,535
Deposits and balances due to banks (Note 14)	(394,342)	(464,120)
	<hr/>	<hr/>
	5,915,713	4,718,563
Less: Deposits and balances due from banks & central banks - maturity more than three months	(1,008,198)	(172,029)
Less: Statutory reserves with central banks (Note 8)	(954,203)	(946,136)
	<hr/>	<hr/>
	3,953,312	3,600,398
	<hr/> <hr/>	<hr/> <hr/>

20. Fiduciary assets

As at 30 June 2013, the Group holds investments at fair value amounting to AED 841 million (31 December 2012: at fair value AED 1.1 billion) which are held in custody on behalf of customers and therefore are not treated as assets in the condensed consolidated statement of financial position.

21. Related party transactions

The Group 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 Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

21. Related party transactions (continued)

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

	30 June 2013 AED'000 (unaudited)	31 December 2012 AED'000 (audited)
Loans and advances	2,247,421	2,098,878
Deposits	323,635	332,259
Letters of credit, guarantee and acceptances	1,241,945	1,171,841

As at 30 June 2013, entities related to one of the directors accounted for 73% (31 December 2012: 56%) of the total aforementioned loans and advances, 22% (31 December 2012: 33%) of the total aforementioned deposits, 94% (31 December 2012: 95%) of the total aforementioned financial guarantees for loans.

	Six months period ended 30 June	
	2013 AED'000 (unaudited)	2012 AED'000 (unaudited)
Interest income	84,133	57,616
Interest expense	4,163	14,995
Directors fees	10,587	10,585

22. Segmental information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For operating purposes, the Group 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 Group's investment portfolio.

These segments are the basis on which the Group reports its segment information. Transactions between segments are conducted at rates determined by management, taking into consideration the cost of funds and an equitable allocation of expenses.

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

22. Segmental information (continued)

The following table presents information regarding the Group's operating segments:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
<u>30 June 2013 (unaudited):</u>				
Segment assets	20,280,583	1,873,254	519,637	22,673,474
Segment liabilities	17,860,110	495,855	256,020	18,611,985
<u>31 December 2012 (audited):</u>				
Segment assets	20,153,900	2,138,994	539,794	22,832,688
Segment liabilities	17,880,194	495,855	274,590	18,650,639

The following table presents information regarding the Group's operating segments for the six months period ended 30 June 2013 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
Net interest income	247,730	14,404	-	262,134
Net fee and commission income	63,516	-	-	63,516
Exchange profit	11,790	-	-	11,790
Investment income	-	12,669	-	12,669
Other income	16,891	-	-	16,891
Gain on investment property revaluation	-	6,180	-	6,180
Operating income	339,927	33,253	-	373,180
Expenses				
Net impairment charge on financial assets	(108,104)	-	-	(108,104)
Depreciation of property and equipment	-	-	(10,724)	(10,724)
Administration and general expenses	(85,910)	(15,160)	-	(101,070)
Amortization of other intangible assets	(3,892)	-	-	(3,892)
Income taxes	-	-	(5,245)	(5,245)
Profit for the period after taxes	142,021	18,093	(15,969)	144,145

**Notes to the condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

22. Segmental information (continued)

The following table presents information regarding the Group's operating segments for the period ended 30 June 2012 (unaudited):

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
Net interest income	240,059	18,203	-	258,262
Net fee and commission income	52,043	-	-	52,043
Exchange profit	11,309	-	-	11,309
Investment income	-	1,393	-	1,393
Other income	3,320	-	-	3,320
	<u>306,731</u>	<u>19,596</u>	<u>-</u>	<u>326,327</u>
Operating income				
Expenses				
Net impairment charge on financial assets	(91,753)	-	-	(91,753)
Depreciation of property and equipment	-	-	(5,364)	(5,364)
Administration and general expenses	(81,186)	(14,327)	-	(95,513)
Amortization of other intangible assets	(3,892)	-	-	(3,892)
Income taxes	-	-	(4,748)	(4,748)
	<u>129,900</u>	<u>5,269</u>	<u>(10,112)</u>	<u>125,057</u>
Profit for the period after taxes				

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period (2012: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for the purpose of resource allocation. The accounting policies of the reportable segments are the same as the Group's accounting policies as disclosed in the consolidated financial statements for the year ended 31 December 2012.

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 condensed consolidated financial statements (continued)
for the six months period ended 30 June 2013**

22. Segmental information (continued)

Geographical information

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

The Group'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
2013			
Operating income (from external customers) for the six months period ended 30 June 2013 (unaudited)	297,260	75,920	373,180
Non-current assets as at 30 June 2013 (unaudited)	715,790	294,542	1,010,332
2012			
Operating income (from external customers) for the six months period ended 30 June 2012 (unaudited)	254,104	72,223	326,327
Non-current assets as at 30 June 2012 (unaudited)	916,483	293,582	1,210,065

23. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Differences can therefore arise between book value under historical cost method and fair value estimates.

24. Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on 25 July 2013.