Al Khaliji France S.A.
United Arab Emirates Branches

Report and financial statements
for the year ended 31 December 2012

Al Khaliji France S.A. - United Arab Emirates Branches

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INDEPENDENT AUDITOR'S REPORT

The Directors
Al Khaliji France S.A.

Report on the Financial Statements

We have audited the accompanying financial statements of **Al Khaliji France S.A.**, **United Arab Emirates Branches** (the "Bank"), which comprise the statement of financial position as at 31 December 2012 and the statement of income, statement of comprehensive income, statement of changes in head office equity and 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Cont'd….

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Al Khaliji France S.A., United Arab Emirates Branches** as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Bank has maintained proper books of accounts. We obtained all the information and explanations which we considered necessary for 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, which might have materially affected the financial position of the Bank or its financial performance.

Deloitte & Touche (M.E.)

ديلويت اند توش

Deloitte & Touche

Anis F. Sadek
Registration No. 521
28 February 2013

Statement of financial position
As of 31 December 2012

	Notes	2012 AED'000	2011 AED'000
ASSETS			
Cash and balances with U.A.E. Central Bank	5	**237,546**	212,383
Due from related parties	6	**68,839**	47,650
Due from banks and financial institutions	7	**57,998**	75,904
Financial Investments	8	**362,011**	476,329
Loans and advances to customers	9	**1,259,523**	1,063,590
Customers' liability under acceptances		**92,054**	119,581
Other assets	10	**13,820**	14,155
Property and equipment	11	**1,421**	2,330
Intangibles	12	**2,708**	1,289
Total Assets		**2,095,920**	2,013,211
LIABILITIES AND HEAD OFFICE EQUITY			
Liabilities			
Due to banks and financial institutions	13	**9,166**	24,078
Customers' deposits	14	**1,409,410**	1,071,561
Due to related parties	6	**98,969**	351,358
Liability under acceptances		**92,054**	119,581
Other liabilities	15	**48,474**	37,963
Total liabilities		**1,658,073**	1,604,541
Head Office Equity			
Assigned capital		**284,850**	284,850
Statutory reserve	16	**35,059**	29,525
Fair value reserve		**8,038**	12,630
Retained earnings		**109,900**	81,665
Total Head Office Equity		**437,847**	408,670
Total Liabilities and Head Office Equity		**2,095,920**	2,013,211

A. Tyan
....
Andre Tyan
General Manager

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

Statement of income
for the year ended 31 December 2012

	Notes	2012 AED'000	2011 AED'000
Interest income		**98,860**	82,910
Interest expense		**(18,066)**	(11,824)
Net interest income		**80,794**	71,086
Fee and commission income		**26,902**	31,952
Fee and commission expense		**(740)**	(691)
Net fee and commission income		**26,162**	31,261
Net gain from foreign currency transactions		**4,813**	5,608
Income from investment securities		**8,484**	-
Other income		**979**	519
Operating income for the year		**121,232**	108,474
General and administrative expenses	17	**(40,719)**	(38,678)
Impairment losses on loans, net of recoveries	18	**(10,313)**	(8,061)
Net operating expenses		**(51,032)**	(46,739)
Profit before tax		**70,200**	61,735
Income tax expense	19	**(14,864)**	(13,238)
Profit for the year		**55,336**	48,497

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

Statement of comprehensive income
for the year ended 31 December 2012

	2012 AED'000	2011 AED'000
Profit for the year	**55,336**	48,497
Other comprehensive (loss)/income		
Gain on revaluation of available for sale financial assets	**3,892**	5,716
Realised gain on sale of available for sale financial assets	**(8,484)**	-
	(4,592)	5,716
Total comprehensive income for the year	**50,744**	54,213

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

Statement of changes in Head Office equity
for the year ended 31 December 2012

	Assigned capital AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2010	284,850	24,675	6,914	64,589	381,028
Profit for the year	-	-	-	48,497	48,497
Other comprehensive income for the year	-	-	5,716	-	5,716
Total comprehensive income for the year	-	-	5,716	48,497	54,213
Profits transferred to Head Office	-	-	-	(26,571)	(26,571)
Transfer to statutory reserve	-	4,850	-	(4,850)	-
Balance at 31 December 2011	284,850	29,525	12,630	81,665	408,670
Profit for the year	-	-	-	55,336	55,336
Other comprehensive loss for the year	-	-	(4,592)	-	(4,592)
Total comprehensive income for the year	-	-	(4,592)	55,336	50,744
Profits transferred to Head Office	-	-	-	(21,567)	(21,567)
Transfer to statutory reserve	-	5,534	-	(5,534)	-
Balance at 31 December 2012	**284,850**	**35,059**	**8,038**	**109,900**	**437,847**

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

Statement of cash flows
for the year ended 31 December 2012

	2012	2011
Cash flows from operating activities		
Profit before tax	**70,200**	61,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment losses on loans, net of recoveries	**10,313**	8,061
Gain on sale of available-for-sale investments	**(8,484)**	-
Depreciation and amortization	**1,003**	488
Fair value of forward deals	**18**	(110)
Operating profit before changes in operating assets and liabilities	**73,050**	70,174
Decrease in cash reserve with U.A.E. Central Bank	**208**	6,639
Increase in loans and advances	**(206,246)**	(358,251)
Decrease/(increase) in other assets	**317**	(1,101)
Increase/(decrease) in customers' deposits	**337,849**	(412,619)
Increase in other liabilities	**8,669**	722
Cash generated from/(used in) operations	**213,847**	(694,436)
Tax paid	**(13,022)**	(10,930)
Net cash from /(used in) operating activities	**200,825**	(705,366)
Cash flows from investing activities		
Purchase of property and equipment	**(440)**	(2,193)
Purchase of intangibles	**(1,073)**	(1,087)
Purchase of investments	**(80,780)**	(107,021)
Proceeds from sale of investments	**198,990**	83,475
Net cash from/(used in) investing activities	**116,697**	(26,826)
Cash flows from financing activity		
Profits transferred to Head Office	**(21,567)**	(26,571)
Net cash used in financing activity	**(21,567)**	(26,571)
Net increase/(decrease) in cash and cash equivalents	**295,955**	(758,763)
Cash and cash equivalents, at the beginning of the year	**(130,906)**	627,857
Cash and cash equivalents, at the end of the year (Note 20)	**165,049**	(130,906)

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

Notes to the financial statements
for the year ended 31 December 2012

1. Status and activities

Al Khaliji France S.A. is a French registered bank with its Head Office in Paris, France. It commenced its operations in the United Arab Emirates in 1973 as a retail bank and currently has four branches, one in each of Dubai, Abu Dhabi, Ras Al Khaimah and Sharjah. The ultimate parent and controlling party is Al Khalij Commercial Bank, Doha, Qatar.

The Bank's regional office in Dubai is responsible for managing the operations of the United Arab Emirates Branches. The regional office's registered address is P.O. Box 4207, Dubai, United Arab Emirates.

These financial statements reflect the activities of the branches of Al Khaliji France S.A. in the United Arab Emirates only (the "Bank") and exclude all transactions, assets and liabilities of the Head Office and Ultimate Parent's branches.

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

2.1 Revised IFRSs applied with no material effect on the financial statements

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

- Amendments to IFRS 1 *Severe Hyperinflation*

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for first time. The amendments are effective for annual periods beginning on or after 1 July 2011 with retrospective application.

- Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The amendments are effective for annual periods beginning on or after 1 January 2012 with retrospective application**.**

- Amendments to IFRS 7 *Disclosures - 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. The amendments are effective for annual periods beginning on or after 1 July 2011. Entities need not provide the disclosures required by the amendments for any period presented that begins before the date of the initial application of the amendments.

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

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted

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

New and revised IFRSs	Effective for annual periods beginning on or after
• 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.	1 January 2013
• Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS.	1 January 2015 (or otherwise when IFRS 9 is first applied)
• Amendments to IFRS 7 *Financial Instruments: Disclosures* enhancing disclosures about offsetting of financial assets and liabilities.	1 January 2013
• Amendments to IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.	1 January 2015
• 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.	1 January 2013
• 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.	1 January 2013
• 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.	1 January 2013

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

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued)

New and revised IFRSs (continued)	Effective for annual periods beginning on or after
• 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.	1 January 2013
• 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.	1 July 2012
• 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.	1 January 2013
• Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014
• IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.	1 January 2013
• Annual Improvements to *IFRSs 2009 - 2011 Cycle*	1 January 2013

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.

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued)

New and revised IFRSs (continued)	Effective for annual periods beginning on or after
• Amendments to IFRS 10, IFRS 12 and IAS 27 - Guidance on Investment Entities On 31 October 2012, the IASB published a final standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The amendments establish an exception to IFRS 10's general consolidation principle for investment entities, requiring them to "measure particular subsidiaries at fair value through profit or loss, rather than consolidate them." In addition, the amendments outline required disclosures for reporting entities that meet the definition of an investment entity.	1 January 2014

*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). In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time. 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.

Management anticipates that these new standards, interpretations and amendments will be adopted in the financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Bank in the period of initial application.

3. Significant accounting policies

a) Statement of compliance

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of the laws of Central Bank of the U.A.E.

b) Basis of preparation

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

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

3. Significant accounting policies (continued)

c) Derivative financial instruments and hedge accounting

The Bank uses derivative financial instruments, including forward foreign exchange contracts to hedge certain currency, interest and other market risks.

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 recognized pricing models as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in statement of income as they arise.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized 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 recognized asset or liability, or a 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 objective and strategy is 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 hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Fair Value Hedge

Gains and losses from re-measuring derivatives, which meet the criteria for fair value hedge accounting, to their fair value are recognized in the statement of income.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to statement of income from that date.

Cash Flow Hedge

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under Head Office equity and the ineffective portion, if any, is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

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

3. Significant accounting policies (continued)

c) Derivative financial instruments and hedge accounting (continued)

Cash Flow Hedge (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in Head Office equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the statement of income for the year.

Embedded Derivatives

Derivatives embedded in other financial instruments or other 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 unrealized gains or losses reported in the statement of income.

d) Revenue and expense recognition

The Bank recognizes interest income and interest expense in the statement of income for all interest bearing financial instruments classified as held to maturity, available for sale and loans and receivables using the effective interest method.

Interest income on non-performing loans and advances is suspended when realization of such interest or the principal amount becomes doubtful. Recoveries in respect of loans fully provided for are accounted for on a cash receipt basis.

Fees and commission income and expenses are generally recognized in the statement of income on accrual basis as the related services are provided except those that are integral to the effective interest rate calculations. Fees and commission included in the effective interest rate calculation are those that are incremental and directly attributable to the origination of the product and which are integral to the yield of the product.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

e) Foreign currency transactions

The Bank's financial statements are presented in the U.A.E. Dirham (AED) which is the Bank's functional and presentation currency.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

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

3. Significant accounting policies (continued)

e) Foreign currency transactions (continued)

Foreign currency translation differences on monetary items classified as available-for-sale, such as foreign currency bonds designated as available-for-sale, are recognized as a translation gain or loss in the statement of income when incurred. Translation differences on non monetary items, classified as available for sale, such as equities are included in the fair value reserve in equity when incurred.

f) Financial instruments

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the statement of income.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on the trade date basis where the purchase or sale of financial assets that require delivery of the assets within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets designated at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as 'available for sale' financial assets, held to maturity investments' and 'loans and advances'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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, to the net carrying amount on initial recognition.

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

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets (continued)

Available for sale financial assets

Available-for-sale financial investments are non derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial investments are initially recognized at fair value plus directly related incremental transaction costs and are subsequently carried at fair value. Unrealized gains or losses arise from changes in the fair values are recognized directly in equity in the available-for-sale reserve, except for impairment losses or foreign exchange gains or losses related to debt securities, which are recognized immediately in the statement of income.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the statement of income for the year.

Dividends on available for sale equity instruments are recognised in the statement of income when the Bank's right to receive payments is established.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Held to maturity financial assets

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Loans and advances

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

Loans and advances are initially recognized when cash is advanced to borrowers at the fair value on the commitment date plus directly attributable incremental transaction costs. They are subsequently carried at amortized cost using the effective interest method less any amounts written off and allowance for impairment.

Allowance for impairment is made against loans and advances when their full recovery as per contracted terms is in doubt taking into consideration IFRS requirements for fair value measurement and Central Bank of the U.A.E. guidelines.

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

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets are impaired.

These are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting period ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

a) significant financial difficulty of the issuer or counterparty;

b) a breach of contract, such as a default or delinquency in payments of principal or interest;

c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

d) it becomes probable that the issuer or borrower will enter bankruptcy or other financial restructuring;

e) The disappearance of an active market for that financial asset because of financial difficulties or adverse changes in the market, economic or legal environment in which the entity operates; or

f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   - adverse changes in the payment status of issuer or borrowers in the Bank portfolio;
   - national or local economic conditions that correlate with defaults on the assets in the Bank portfolio.

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

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets (continued)

Impairment of loans and advances

Impairment of loans and advances are assessed as follows:

Individually assessed loans

These represent mainly corporate loans which are assessed individually and classified by the Credit Department in order to determine whether there exists any objective evidence that a loan is impaired.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized in the statement of income. In determining such impairment losses on individually assessed accounts, the following factors are considered:

- Bank's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari-passu with, and the likelihood of other creditors continuing to support the company; and
- the realizable value of security (or other credit mitigants) and likelihood of successful repossession.

Collectively assessed loans

Impairment losses of collectively assessed loans are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the statement of income.

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 recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income.

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

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets (continued)

Impairment of available for sale investments

A significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognized directly in equity is removed from equity and recognized in the statement of income. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognized in the statement of income. Reversals of impairment of equity shares are not recognized in the statement of income, increases in the fair value of equity shares after impairment are recognized directly in equity.

De-recognition of financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Bank is recognized as a separate asset.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial liabilities

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 amortised 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 amortised 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.

De-recognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in statement of income.

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

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported at the end of each reporting period if, and only if, there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. Depreciation is determined using the straight-line method over the estimated useful life as follows:

	Years
Office equipment	3 - 5
Furniture and fittings	5
Leasehold improvements	5
Vehicles	3

The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life.

The useful lives, methods and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed at each reporting date to take account of any change in circumstances.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of income.

h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income in the expense category consistent with the function of the intangible asset.

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

3. Significant accounting policies (continued)

i) Impairment of tangible and intangible assets

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

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 recognized in the statement of income, 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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the statement of income, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

j) Employees' end of service benefits

Provision for employees' end of service indemnity is made based on current remuneration and cumulative years of service at the end of each reporting period. The provision is made in accordance with the Bank's policy which is not less than the liability arising under the U.A.E. labour laws.

k) Operating leases

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Where the Bank is the lessee and the leased assets are not recognized on reporting period, rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases.

l) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with the U.A.E. Central Bank (except mandatory cash reserves) and due from banks and financial institutions. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

m) Taxation

Income tax represents 20% of the taxable income of all Branches excluding Ras Al Khaimah Branch, where income tax does not apply.

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

3. Significant accounting policies (continued)

n) Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Guarantees could be to secure a Bid Bond, Performance of a Contract by the client or to secure the advance payment made for any contract.

Financial guarantees are initially measured at fair value on the date that the guarantee was given. Other than where the fair value option is applied, subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the statement of income any fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at each reporting period.

Any increase in the liability relating to guarantees is taken to the statement of income provisions for undrawn contractually committed facilities and guarantees provided. Any liability remaining is recognized in the statement of income when the guarantee is discharged, cancelled or expires.

o) Documentary credits

Documentary Credits, issued on behalf of the clients of the Bank, are contracts whereby the Bank guarantees to pay on behalf of the client money to the holder for goods supplied to the client. The payment would be made only on submission of documents as prescribed in the credit by the holder through his bank.

The income received for the issue of the credit and subsequent handling of the bills under the credit is recognized as fee income as and when received.

p) Commitments to extend credit

These are firm commitments made by the Bank to its clients to extend credit as per the terms of the agreement and are considered as an off balance sheet liability.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Bank’s accounting policies, which are described in Note 3, management has made certain judgments that have the most significant effect on the amounts recognized in the financial statements. In addition, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting date, could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. These critical judgment and key sources of estimation uncertainty are discussed below:

Impairment of loans

The Bank’s accounting policy for allowances in relation to impaired loans and advances is described in Note 3(f). Impairment is calculated on the basis of discounted estimated future cash flows and requires judgment to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans.

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

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

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

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 when determining impairment losses on individually assessed accounts:

(1) The customer's aggregate borrowings.

(2) The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount.

(3) The value of the collateral and the probability of successful repossession.

(4) The cost involved to recover the debts.

The Bank's policy requires regular 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.

Collectively assessed loans

Collectively assessed allowances are made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant.

The portfolio approach is applied to accounts in the following portfolios:

a) Personal loans;
b) Home loan; and
c) Auto loans.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly.

Performing loans

The management of the bank assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans which may be impaired but not identified as of the reporting date.

5. Cash and balances with U.A.E. Central bank

	2012 **AED'000**	2011 AED'000
Cash on hand	**12,191**	11,558
Current account with U.A.E. Central Bank	**74,156**	109,418
Statutory cash ratio requirements	**91,199**	91,407
Certificates of deposit with U.A.E. Central bank	**60,000**	-
	237,546	212,383

The Bank is required to maintain statutory deposits with U.A.E. Central Bank which are not available for use in the day-to-day operations.

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

6. Related party transactions

The Bank enters into transactions with entities that fall within the definition of a related party in accordance with International Accounting Standard 24: Related Party Disclosures. Related parties comprise Head Office and ultimate parent and controlling party outside the U.A.E. The Bank's management decides on the terms and conditions of such related party transactions.

The Bank maintains certain deposits with the Head Office in Paris (the "Head Office") and the ultimate parent and controlling party and conducts banking transactions with them as part of its normal activities.

The Head Office provides administrative and management support to the Bank (Note 17) for which the U.A.E. branches were charged a fee for the year ended 31 December 2012 of AED 0.62 million (2011: AED 0.67 million).

	2012	2011
	AED'000	AED'000
Due from related parties comprise:		
Current accounts	**41,755**	14,318
Term deposits	**27,084**	33,332
	68,839	47,650
Due to related parties comprise:		
Current accounts	**22,509**	15,279
Term deposits	**76,460**	336,079
	98,969	351,358

Profit for the year includes related party transactions as follows:

	2012	2011
	AED'000	AED'000
Interest income	**406**	1,272
Commission income	**772**	514
Interest expense	**1,788**	629
Commission expense	**804**	674
Key management personnel compensation:		
Compensation accrued during the year to key management personnel	**6,489**	6,003

Interest income from related parties includes an amount of AED 52,000 (2011: AED 51,000) received from key management personnel.

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

7. Due from banks and financial institutions

	2012 AED'000	2011 AED'000
Due from banks and financial institutions outside the U.A.E.	**57,600**	75,904
Due from banks and financial institutions in the U.A.E.	**398**	-
	57,998	75,904

8. Financial investments

	2012 AED'000	2011 AED'000
Available for sale	**232,803**	346,605
Held to maturity	**129,208**	129,724
	362,011	476,329

Investments amounting AED 165 million (2011: AED 184 million) are under lien as collateral against borrowings made by the ultimate controlling party.

	2012 AED'000	2011 AED'000
Investments by geographic concentration are as follows:		
- Within U.A.E.	**299,012**	452,645
- Outside U.A.E.	**62,999**	23,684
	362,011	476,329

The analysis of financial investments by industry sector is as follows:

	2012 AED'000	2011 AED'000
Government and Public Sector	**246,766**	364,614
Financial Institutions	**115,245**	111,715
Total	**362,011**	476,329

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

9. Loans and advances to customers

a) Loans and advances comprise:

	2012 AED'000	2011 AED'000
Loans and advances	**1,294,736**	1,089,566
Less: Allowance for impairment	**(35,213)**	(25,976)
	1,259,523	1,063,590

At 31 December 2012, the fair value of collateral held against loans and advances to customers was AED 733 million (2011: AED 453 million) an analysis of which is provided in Note 27.

b) The movement of the allowances against the loans and advances to customers is as follows:

	2012 AED'000	2011 AED'000
Balance at the beginning of the year	**25,976**	19,876
Allowance for the year	**12,532**	11,499
Write-offs during the year	**(2,959)**	(3,747)
Recoveries during the year	**(336)**	(1,652)
Balance at the end of year	**35,213**	25,976

Allowance for the year includes AED 2 million of suspended interest (2011: AED 2 million).

	2012 AED'000	2011 AED'000
Specific impairment	**18,662**	15,185
Collective impairment	**16,551**	10,791
	35,213	25,976

c) Analysis of gross loans and advances to customers by class:

	2012 AED'000	2011 AED'000
Corporate lending	**1,119,313**	932,791
Small business lending	**117,418**	111,791
Retail lending	**58,005**	44,984
	1,294,736	1,089,566

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

9. Loans and advances to customers (continued)

d) Gross loans and advances by geographical area were as follows:

	2012	2011
	AED'000	AED'000
Within U.A.E.	**1,294,736**	1,089,566

e) Gross loans and advances by industry group were as follows:

	2012	2011
	AED'000	AED'000
Wholesale and retail trade	**402,274**	309,253
Personal loans	**42,920**	37,642
Manufacturing	**342,240**	267,095
Transport and communication	**55,582**	32,823
Construction	**237,997**	213,639
Services	**213,723**	229,114
	1,294,736	1,089,566

10. Other assets

	2012	2011
	AED'000	AED'000
Interest receivable	**10,361**	11,892
Prepaid expenses	**2,354**	2,096
Other	**1,105**	167
	13,820	14,155

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

11. Property and equipment

	Office Equipment AED'000	Furniture and fittings AED'000	Vehicles AED'000	Leasehold improvements AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 31 December 2010	3,873	913	138	3,981	-	8,905
Additions during the year	586	218	-	567	822	2,193
At 31 December 2011	4,459	1,131	138	4,548	822	11,098
Additions during the year	311	-	-	129	-	440
Transfers to intangibles	-	-	-	-	(822)	(822)
At 31 December 2012	**4,770**	**1,131**	**138**	**4,677**	**-**	**10,716**
Accumulated depreciation						
At 31 December 2010	3,733	851	138	3,802	**-**	8,524
Charge for the year	136	24	-	84	-	244
At 31 December 2011	3,869	875	138	3,886	-	8,768
Charge for the year	296	63	-	168	-	527
At 31 December 2012	**4,165**	**938**	**138**	**4,054**		**9,295**
Carrying amount						
At 31 December 2012	**605**	**193**	**-**	**623**	**-**	**1,421**
At 31 December 2011	590	256	-	662	822	2,330

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

12. Intangibles

	Software AED'000	Intangibles work in progress AED'000	Total AED'000
Cost			
At 31 December 2010	6,342	-	6,342
Additions during the year	740	347	1,087
At 31 December 2011	7,082	347	7,429
Additions during the year	1,073	-	1,073
Transfers from property and equipment	822	-	822
Transfers	200	(200)	-
At 31 December 2012	**9,177**	**147**	**9,324**
Accumulated depreciation			
At 31 December 2010	5,896	-	5,896
Charge for the year	244	-	244
At 31 December 2011	6,140	-	6,140
Charge for the year	476	-	476
At 31 December 2012	**6,616**	-	**6,616**
Carrying amount			
At 31 December 2012	**2,561**	**147**	**2,708**
At 31 December 2011	942	347	1,289

13. Due to banks and financial institutions

	2012 AED'000	2011 AED'000
Due to banks and financial institutions outside the U.A.E.	**9,166**	6,078
Due to banks and financial institutions in the U.A.E.	**-**	18,000
	9,166	24,078

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

14. Customers' deposits

	2012 AED'000	2011 AED'000
Current accounts	**492,142**	433,581
Saving accounts	**12,034**	9,077
Time deposits	**773,563**	494,888
Margin accounts	**131,671**	134,015
	1,409,410	1,071,561

Time deposits under lien as security for loans and advances (funded and unfunded) as at 31 December 2012 amounted to AED 355 million (2011: AED 266 million).

15. Other liabilities

	2012 AED'000	2011 AED'000
Income tax provision (Note 19)	**14,797**	12,955
Provision for employees' end of service indemnity	**16,809**	15,323
Interest payable	**2,738**	1,477
Other	**14,130**	8,208
	48,474	37,963

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

16. Statutory reserve

In accordance with Article (82) of Union Law No. 10 of 1980, Federal Commercial Companies Law, the Bank has established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution.

17. General and administrative expenses

	2012 AED'000	2011 AED'000
Payroll	**31,375**	30,035
Depreciation and amortization	**1,003**	488
Head office charges	**621**	674
Other	**7,720**	7,481
	40,719	38,678

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

18. Impairment losses on loans, net of recoveries

	2012 AED'000	2011 AED'000
Impairment losses on loans	**10,456**	9,627
Recoveries during the year	**(143)**	(1,566)
Impairment losses on loans, net of recoveries	**10,313**	8,061

The impairment losses on loans, net of recoveries stated above excludes suspended interest of AED 2 million (2011: AED 2 million).

19. Taxation

The Bank is subject to taxation at the rate of 20% of the taxable income for the year in the Emirates of Abu Dhabi, Dubai and Sharjah. The taxable income is calculated after adding back certain provisions to the net profit before taxation, which management believes are likely to be disallowed as deductions by the tax authorities:

	2012 AED'000	2011 AED'000
Balance, at the beginning of the year	**12,955**	10,647
Current year charges	**14,864**	13,238
Paid during the year	**(13,022)**	(10,930)
Balance, at the end of the year (Note 15)	**14,797**	12,955

20. Cash and cash equivalents

	2012 AED'000	2011 AED'000
Cash and balances with U.A.E. Central Bank	**86,347**	120,976
Cash reserves and certificates of deposit with U.A.E. Central Bank	**151,199**	91,407
Due from related parties	**68,839**	47,650
Due from banks and financial institutions outside UAE	**57,600**	75,904
Due from banks and financial institutions in the U.A.E.	**398**	-
	364,383	335,937
Due to related parties	**(98,969)**	(351,358)
Due to banks and financial institutions	**(9,166)**	(24,078)
Cash reserves with U.A.E. Central Bank	**(91,199)**	(91,407)
Cash and cash equivalents	**165,049**	(130,906)

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

21. Concentrations of assets, liabilities and equity and off balance sheet items

	31 December 2012			31 December 2011		
	Assets	**Liabilities and equity**	**Off balance sheet items**	Assets	Liabilities and equity	Off balance sheet items
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Geographic regions						
U.A.E.	**1,874,093**	**1,912,890**	**1,185,245**	1,832,532	1,551,713	1,112,395
Other Middle East countries	**81,673**	**22,386**	**35,588**	25,390	120,307	14,240
O.E.C.D.	**115,233**	**135,432**	**87**	124,560	295,285	783
Other	**24,921**	**25,212**	**-**	30,729	45,906	-
Total	**2,095,920**	**2,095,920**	**1,220,920**	2,013,211	2,013,211	1,127,418
Industry Sector						
Government and Public Sector	**618,540**	**4,652**	**-**	654,654	68	-
Commercial and Business	**1,147,154**	**903,215**	**1,145,556**	1,049,298	812,780	1,094,542
Personal	**58,005**	**531,411**	**1,261**	44,657	346,013	1,261
Financial Institutions	**242,082**	**170,321**	**74,103**	235,269	407,718	31,615
Other	**30,139**	**486,321**	**-**	29,333	446,632	-
Total	**2,095,920**	**2,095,920**	**1,220920**	2,013,211	2,013,211	1,127,418

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

22. Classification of financial assets and liabilities

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 2012:

	Available-for- sale-investments AED'000	Loans and advances (including cash and cash equivalents) AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets				
Cash and balances with U.A.E. Central Bank	-	177,546	60,000	237,546
Due from related parties	-	68,839	-	68,839
Due from banks and financial institutions	-	57,998	-	57,998
Financial investments	232,803	-	129,208	362,011
Loans and advances to customers	-	1,259,523	-	1,259,523
Other assets	-	-	11,466	11,466
Total	232,803	1,563,906	200,674	1,997,383
Financial liabilities				
Due to banks and financial institutions	-	-	9,166	9,166
Customer deposits	-	-	1,409,410	1,409,410
Due to related parties	-	-	98,969	98,969
Other liabilities	-	-	16,868	16,868
Total	-	-	1,534,413	1,534,413

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

22. Classification of financial assets and liabilities (continued)

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:

	Available-for- sale-investments AED'000	Loans and advances (including cash and cash equivalents) AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets				
Cash and balances with U.A.E. Central Bank	-	212,383	-	212, 383
Due from related parties	-	47,650	-	47,650
Due from banks and financial institutions	-	75,904	-	75,904
Financial investments	346,605	-	129,724	476,329
Loans and advances to customers	-	1,063,590	-	1,063,590
Other assets	-	-	12,059	12,059
Total	346,605	1,399,527	141,783	1,887,915
Financial liabilities				
Due to banks and financial institutions	-	-	24,078	24,078
Customer deposits	-	-	1,071,561	1,071,561
Due to related parties	-	-	351,358	351,358
Other liabilities	-	-	9,685	9,685
Total	-	-	1,456,682	1,456,682

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

23. Liquidity profile

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2012				
Assets				
Cash and balances with U.A.E. Central Bank	237,546	-	-	237,546
Due from related parties	68,839	-	-	68,839
Due from banks and financial institutions	57,998	-	-	57,998
Financial investments	5,081	19,874	337,056	362,011
Loans and advances to customers	745,741	208,256	305,526	1,259,523
Customers' liability under acceptances	58,190	33,864	-	92,054
Other assets	12,351	1,337	132	13,820
Property and equipment	-	-	1,421	1,421
Intangibles	-	-	2,708	2,708
Total Assets	1,185,746	263,331	646,843	2,095,920
Liabilities and Head Office Equity				
Due to banks and financial institutions	9,166	-	-	9,166
Customers' deposits	1,216,765	192,645	-	1,409,410
Due to related parties	95,969	3,000	-	98,969
Liability under acceptances	58,190	33,864	-	92,054
Other liabilities	31,699	-	16,775	48,474
Head Office equity	-	-	437,847	437,847
Total Liabilities and Head Office Equity	1,411,789	229,509	454,622	2,095,920

Maturities of assets and liabilities have been determined on the basis of the remaining periods at the end of each reporting period with the loans and advances maturities being determined based on contractual obligations.

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

23. Liquidity profile (continued)

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2011				
Assets				
Cash and balances with U.A.E. Central Bank	212,383	-	-	212,383
Due from related parties	47,650	-	-	47,650
Due from banks and financial institutions	75,904	-	-	75,904
Financial investments	4,761	-	471,568	476,329
Loans and advances to customers	573,987	212,665	276,938	1,063,590
Customers' liability under acceptances	83,317	36,264	-	119,581
Other assets	12,957	1,142	56	14,155
Property and equipment	-	-	2,330	2,330
Intangibles	-	-	1,289	1,289
Total Assets	1,010,959	250,071	752,181	2,013,211
Liabilities and Head Office Equity				
Due to banks and financial institutions	24,078	-	-	24,078
Customers' deposits	958,642	112,919	-	1,071,561
Due to related parties	351,358	-	-	351,358
Liability under acceptances	83,317	36,264	-	119,581
Other liabilities	22,662	-	15,301	37,963
Head Office equity	-	-	408,670	408,670
Total Liabilities and Head Office Equity	1,440,057	149,183	423,971	2,013,211

Maturities of assets and liabilities have been determined on the basis of the remaining periods at the end of each reporting period with the loans and advances maturities being determined based on contractual obligations.

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

24. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Fair value of financial instruments carried at amortized cost

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

	Carrying amount AED'000	**Fair value AED'000**
2012		
Financial assets:		
Held to maturity investments	**129,208**	**136,943**
	=========	========
2011		
Financial assets:		
Held to maturity investments	129,724	139,621
	=========	=========

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are 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 values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed 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 financial statements (continued)
for the year ended 31 December 2012

24. Fair value of financial instruments (continued)

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped 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).
- 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).

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Available-for-sale financial assets				
- Debt securities	**227,722**	**5,081**	**-**	**232,803**
Total	**227,722**	**5,081**	**-**	**232,803**

	31 December 2011			
	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Available-for-sale financial assets				
- Debt securities	341,844	4,761	-	346,605
Total	341,844	4,761	-	346,605

Transfers between Level 1 and Level 2:

During the year, there were no transfers between level 1 and level 2 of the fair value hierarchy for financial assets which are recorded at fair value.

All gain and losses included in other comprehensive income relate to available for sale financial investments held at the end of the reporting period and are reported as changes of 'Fair value reserve'.

25. Derivatives

Derivatives and foreign exchange instruments are utilized by the Bank primarily to satisfy the requirements of its customers and are also used to a limited extent to manage the Bank's own exposure to currency, interest and other market risks.

The most frequently used derivatives by the Bank are forward foreign exchange contracts, which are initially measured at cost and subsequently re-measured at fair value. Derivatives with positive market values are included in other assets and derivatives with negative market values are included in other liabilities in the reporting period. The resultant gains and losses from derivatives are included in the statement of income.

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

25. Derivatives (continued)

The table below shows the positive and negative fair values of derivative financial instruments at the year end which are equivalent to the market value, together with the total contract values:

	Positive fair value AED'000	**Negative fair value AED'000**	**Total national value AED'000**	**1 to 3 months AED'000**	**3 Months to 1 year AED'000**
2012					
Forward foreign exchange contracts	-	**1**	**2,362**	**2,362**	-
2011					
Forward foreign exchange contracts	18	1	10,231	10,231	-

26. Capital management

Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Bank.

The Central Bank of the U.A.E. adopted Basel 2 capital regime in November 2009. Al Khaliji France S.A. U.A.E. Branches calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, if any.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment subject to the limit of 1.25% of RWA and the element of the fair value reserve (45%) relating to unrealised gains on financial investments classified as available for sale.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. The Tier One Capital must be more than 6% of total RWA and Tier 2 Capital cannot be more than 66.6% of Tier One Capital.

The Bank's RWA are weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The bank is following the standardized measurement approach for credit, market and operational risk, as per Pillar 1 of Basel 2.

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

26. Capital management (continued)

The Bank has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the year.

The Bank's regulatory capital position is as follows:

	2012 AED'000	2011 AED'000
Tier 1 capital		
Assigned capital	**284,850**	284,850
Statutory reserve	**35,059**	29,525
Retained earnings	**109,900**	81,665
Less: Intangibles – Software	**(2,708)**	(1,289)
	427,101	394,751
Tier 2 capital		
Collective provision for impairment	**16,551**	10,791
Fair value reserve (45%) - Available for sale	**3,617**	5,684
	20,168	16,475
Total capital base (a)	**447,269**	411,226
Risk-weighted assets		
Credit risk:		
On balance sheet	**1,175,723**	972,144
Off balance sheet	**599,890**	580,070
	1,775,613	1,552,214
Market risk	**584**	595
Operational risk	**134,949**	113,388
Total risk-weighted assets (b)	**1,911,146**	1,666,197
***Capital adequacy ratio* = [a/b x 100]**	**23.40%**	24.68%

26. Capital management (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly.

27. Risk management

The Bank has set up a strong risk management infrastructure supported by adoption of certain practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk

The Head Office of the Bank has overall responsibility for the oversight of the risk management frame work. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Bank.

The Credit Committee and Management Committee work under the mandate of the Head Office to set up risk limits and manage the overall risk in the Bank.

These committees are responsible for developing credit, market and operational risk policies. Highly experienced and trained managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risk.

Credit risk management

Policies relating to credit are reviewed and approved by the Bank's Credit Committee. All credit lines are approved centrally for U.A.E. branches. 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 industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Examination teams from the Audit, Review and Compliance Bank and facilities are risk graded based on criterion established in the Credit Policy Manual.

The Credit 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.

Different credit underwriting procedures are followed for retail and commercial lending as described below.

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

27. Risk management (continued)

Retail lending

Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Bank's Credit Committee. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements.

Commercial lending

All credit applications for commercial 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 specialized industry knowledge is required. In addition, the Bank sets credit limits for all customers based on an evaluation of their creditworthiness.

All credit lines or facilities extended by the Bank are made subject to prior approval pursuant to a set of delegated credit authority limits approved by the Bank's Head Office.

Credit review procedures and loan classification

The Bank's Credit Risk Team (the 'CRT'), 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 Bank's internal policies in order to assist in the early identification of accrual and potential performance problems. The CRT validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Bank.

If a credit is overdue for 90 days or more, interest is suspended and is not credited to income. 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, 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 or its recoverability based either on collateral value or the market value of the asset where such price is available.

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s). These loans are graded fair, OLEM, substandard, doubtful or loss in the Bank's internal credit risk grading system.

27. Risk management (continued)

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and / or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan 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 groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan or security (and any related allowances for impairment losses) when Bank Credit Committee determines that the loans/securities are uncollectible in whole or in part. 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 its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

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

27. Risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	Due from banks		Loans and advances		Financial investments	
	2012	2011	**2012**	2011	**2012**	2011
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Impaired						
Substandard	-	-	**4**	-	-	-
Doubtful	-	-	**3,080**	12,793	-	-
Loss	-	-	**16,995**	5,641	-	-
Gross amount	-	-	**20,079**	18,434	-	-
Interest suspended	-	-	**(5,122)**	(4,776)	-	-
Specific allowance for impairment	-	-	**(13,540)**	(10,409)	-	-
	-	-	**1,417**	3,249	-	-
Past due but not impaired						
Commercial loans by less than 180 days	-	-	**203**	-	-	-
Past due retail loans less than 30 days	-	-	-	-	-	-
	-	-	**203**	-		-
Neither past due nor impaired						
Gross amount	**57,998**	75,904	**1,274,454**	1,071,132	**362,011**	476,329
Collective allowance for impairment	**-**	-	**(16,551)**	(10,791)	**-**	-
	57,998	75,904	**1,257,903**	1,060,341	**362,011**	476,329
Carrying amount	**57,998**	75,904	**1,259,523**	1,063,590	**362,011**	476,329

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

27. Risk management (continued)

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2012 or 2011.

At 31 December, the fair value of collateral held was as follows:

	Loans and advances to customers	
	2012	2011
	AED'000	AED'000
Against impaired		
Property	**-**	600
Debt securities	**-**	-
Equities	**-**	-
Cash	**-**	-
Others	**-**	-
Against past due but not impaired		
Property	**-**	-
Debt securities	**-**	-
Equities	**-**	-
Cash	**-**	-
Others	**-**	-
Against neither past due nor impaired		
Property	**557,888**	309,469
Debt securities	**-**	-
Equities	**-**	-
Cash	**156,235**	92,266
Others	**18,984**	50,757
Total	**733,107**	453,092

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

27. Risk management (continued)

The distributions by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

	U.A.E. AED'000	Middle East countries AED'000	O.E.C.D AED'000	Other countries AED'000	Total AED'000
2012					
Non-performing loans	**20,079**	**-**	**-**	**-**	**20,079**
Impairment allowance for credit losses	**13,540**	**-**	**-**	**-**	**13,540**
Interest in suspense	**5,122**	**-**	**-**	**-**	**5,122**
	=======	=======	=======	=======	=======
2011					
Non-performing loans	18,434	-	-	-	18,434
Impairment allowance for credit losses	10,409	-	-	-	10,409
Interest in suspense	4,776	-	-	-	4,776
	=======	=======	=======	=======	=======

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

27. Risk management (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2012:

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over one year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with U.A.E. Central Bank		-	-	-	237,546	237,546
Due from related parties	68,839	-	-	-	-	68,839
Due from banks and financial institutions	57,998	-	-	-	-	57,998
Financial investments	24,955	-	-	337,056	-	362,011
Loans and advances to customers	808,048	119,839	55,704	274,519	1,413	1,259,523
Customers' liability under acceptances					92,054	92,054
Other assets	-	-	-	-	13,820	13,820
Property and equipment	-	-	-	-	1,421	1,421
Intangibles	-	-	-	-	2,708	2,708
Total assets	**959,840**	**119,839**	**55,704**	**611,575**	**348,962**	**2,095,920**
Liabilities and Head Office equity						
Due to banks and financial institutions	9,166	-	-	-	-	9,166
Customers' deposits	609,578	164,081	28,564	-	607,187	1,409,410
Due to related parties	95,969	3,000	-	-	-	98,969
Liability under acceptances					92,054	92,054
Other liabilities	-	-	-	-	48,474	48,474
Head Office Equity	-	-	-	-	437,847	437,847
Total liabilities and head office equity	**714,713**	**167,081**	**28,564**	**-**	**1,185,562**	**2,095,920**
On Balance Sheet gap	**245,127**	**(47,242)**	**27,140**	**611,575**	**(836,600)**	**-**
Cumulative interest rate sensitivity gap	**245,127**	**197,885**	**225,025**	**836,600**	**-**	**-**

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

27. Risk management (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2011:

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over one year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with U.A.E. Central Bank	-	-	-	-	212,383	212,383
Due from related parties	47,650	-	-	-	-	47,650
Due from banks and financial institutions	75,904	-	-	-	-	75,904
Financial investments	24,498	-	-	451,831	-	476,329
Loans and advances to customers	700,028	104,400	55,136	200,751	3,275	1,063,590
Customers' liability under acceptances	-	-	-	-	119,581	119,581
Other assets	-	-	-	-	14,155	14,155
Property and equipment	-	-	-	-	2,330	2,330
Intangibles	-	-	-	-	1,289	1,289
Total assets	848,080	104,400	55,136	652,582	353,013	2,013,211
Liabilities and Head Office equity						
Due to banks and financial institutions	24,078	-	-	-	-	24,078
Customers' deposits	365,221	76,048	34,961	-	595,331	1,071,561
Due to related parties	351,358	-	-	-	-	351,358
Liability under acceptances	-	-	-	-	119,581	119,581
Other liabilities	-	-	-	-	37,963	37,963
Head Office Equity	-	-	-	-	408,670	408,670
Total liabilities and head office equity	740,657	76,048	34,961	-	1,161,545	2,013,211
On Balance Sheet gap	107,423	28,352	20,175	652,582	(808,532)	-
Cumulative interest rate sensitivity gap	107,423	135,775	155,950	808,532	-	-

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

27. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

Management of liquidity risk

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

Treasury receives information from 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. Treasury then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank.

The daily liquidity position is monitored regularly and liquidity stress testing is conducted covering both normal and more severe market conditions. Liquidity policies and procedures are subject to review and approval by Head Office. Reports of the bank liquidity positions are reviewed daily. A summary report including any exceptions and remedial action taken is also reviewed daily.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's lead regulator. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Utilization of funds to stable resources and stress testing of liquid funds against unexpected withdrawal of liabilities.

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 either trading or non-trading or banking-book.

The Bank carries a limited amount of market risk as a policy preference and it is continuously monitored. Foreign exchange for the account of the Bank is managed properly.

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

27. Risk management (continued)

Market risk - Non Trading or Banking Book

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

i) Interest rate risk management

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 monitoring tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by Local Management Committee. Since a portion of the Bank's assets and liabilities have floating rates, deposits and loans generally repriced simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Bank's assets and liabilities are repriced within one year, thereby further limiting interest rate risk. The following paragraphs depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Bank's statement of income 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 2012, including the effect of hedging instruments. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in AED million.

The impact of 1% sudden movement in benchmark interest rate on net income over a 12 months period as on 31 December 2012 would have been a decrease in net income by -3.89% (in case of decrease of interest rate) and would have been an increase in net income by +3.89% (in case of increase of interest rate) [2011: -3.88% and +3.88%] respectively.

The effective interest rate on bank placements, financial institutions, investments and certificates of deposits with Central Bank was 2.29% (2011: 2.05%), on loans and advances 6.40% (2011: 6.79%), on customer deposits 1.18% (2011: 0.77%) and on bank borrowings 0.94% (2011: 0.67%).

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

27. Risk management (continued)

Market 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 Head Office has set limits on positions by currencies, which are monitored daily, and hedging strategies 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. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Head Office sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	Net spot position AED'000	**Forward position AED'000**	**Total 2012 AED'000**	Total 2011 AED'000
Euro	**152**	**-**	**152**	205
Sterling Pounds	**9**	**-**	**9**	73
Swedish Kroners	**6**	**-**	**6**	159
Lebanese Pounds	**332**	**-**	**332**	(13)
Kuwaiti Dinars	**-**	**-**	**-**	4
South African Rand	**3**	**-**	**3**	1
Japanese Yens	**29**	**-**	**29**	83
Canadian Dollars	**8**	**-**	**8**	4
Swiss Francs	**16**	**-**	**16**	2
Australian Dollars	**8**	**-**	**8**	42
Norwegian Kroner	**3**	**-**	**3**	2
Jordanian Dinars	**17**	**-**	**17**	17
Danish Kroners	**1**	**-**	**1**	3
Total	**584**	**-**	**584**	582

The exchange rate of AED against US Dollar is pegged since November 1980 and the Bank's exposure to currency risk is limited to that extent.

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

27. Risk management (continued)

Operational risk

The Bank manages and undertakes to minimise operational losses as follows:

Identify and assess the operational risk inherent in all material products, activities, processes and systems, and ensure that before new products, activities, processes and systems are introduced or undertaken, the inherent operational risk in them is subject to adequate assessment procedures.

Implement a process to monitor operational risk profiles and material exposures to losses on a regular basis.

Establish and implement policies, processes and procedures to mitigate and/or control material operational risks. Periodically review organizational risk limitation and control strategy and adjust its operational risk profile using appropriate strategies in the context of the Bank's overall risk appetite and profile.

Ensure contingency and business continuity plans are in place to ensure the Bank's ability to operate on an ongoing basis and to limit losses in the event of severe business interruption, disruption or loss.

28. Contingent liabilities and commitments

	2012	2011
	AED'000	AED'000
a) Contingent liabilities		
Guarantees	**1,097,761**	963,563
Letters of credit	**123,159**	163,855
	1,220,920	1,127,418

The outstanding unutilised facilities as of 31 December 2012 amounted to AED 1,427 million (2011: AED 1,231 million).

The outstanding unused portion of commitments can be revoked unilaterally at any time by the Bank provided there are reasonable grounds as per contract terms.

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

28. Contingent liabilities and commitments (continued)

b) Contingent liabilities - maturity profile

The maturity profile of the Bank's contingent liabilities was as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 year AED'000	Total AED'000
2012					
Guarantees	**598,518**	**191,678**	**160,249**	**147,316**	**1,097,761**
Letters of credit	**96,527**	**24,126**	**2,506**	**-**	**123,159**
	695,045	**215,804**	**162,755**	**147,316**	**1,220,920**
2011					
Guarantees	558,761	137,019	133,067	134,716	963,563
Letters of credit	144,446	19,409	-	-	163,855
	703,207	156,428	133,067	134,716	1,127,418

The analysis of commitments and contingencies by industry sector is shown in Note 21.

29. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 28 February 2013.