NOOR ISLAMIC BANK
بنك نور الإسلامي

Directors' report and financial statements for the year ended 31 December 2012

Directors’ report and financial statements for the year ended 31 December 2012

Directors' report for the year ended 31 December 2012

The Board of Directors are pleased to submit their report on the activities of Noor Islamic Bank P.J.S.C. ("the Bank") together with the audited financial statements for the year ended 31 December 2012.

Principal activities

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Wakalah, Tawarruq, Istisna, Islamic sukukand Ijarah. The activities of the Bank are conducted in accordance with the Islamic Sharia'a principles and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

Results

The statement of financial position of the Bank as of 31 December 2012, together with its income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended are set out in the accompanying financial statements.

Dividends

The Board of Directors do not propose any dividend for the year ended 31 December 2012.

Composition of the Board of Directors

The Board of Directors of the Bank comprised of following individuals during the year ended 31 December 2012:

H.H. Sheikh Ahmed bin Mohammad bin Rashid Al Maktoum (Chairman)
H.E. Mohammad Abdulla Ali AlGergawi (Vice Chairman)*
Lt. Gen. Musabbeh Rashid Musabbeh Al Fattan (Vice Chairman)
Mr. Soud Ahmad Abdulrahman Ba'alawy
Mr. Essa Abdulfattah Kazim Al Mulla
H.E. Sultan Ahmad Sultan bin Sulayem
Mr. Mohamed Alabbar**
Mr. Abdulla Ahmed Mohd Al Habbai
Mr. Abdulla Mohd Rashed Al Huraiz
Mr. Hussain Ahmad Dhaen Al Qemzi

* Resigned effective 2 February 2012
** Appointed effective 2 September 2012

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors on 27 March 2013

……………………… ………………………
Director Director

pwc

Independent auditors' report to the shareholders of Noor Islamic Bank P.J.S.C.

Report on the financial statements

We have audited the accompanying financial statements of Noor Islamic Bank P.J.S.C. ("the Bank"), which comprise the statement of financial position as of 31 December 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the 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 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 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.

PricewaterhouseCoopers, Emaar Square, Building 4, Level 8, PO Box 11987, Dubai, United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 330 4100, www.pwc.com/middle-east

pwc

Independent auditors' report to the shareholders of Noor Islamic Bank P.J.S.C. (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank 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

As required by the UAE Federal Law No (8) of 1984, as amended, we report that:

a) we have obtained all the information we considered necessary for the purpose of our audit;

b) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and the Articles of Association of the Bank;

c) the Bank has maintained proper books of account and the financial statements are in agreement therewith;

d) the financial information included in the Directors' report is consistent with the books of account of the Bank; and

e) nothing has come to our attention, which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2012.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
28March 2013

Amin H Nasser
Registered Auditor Number 307
Dubai, United Arab Emirates

NOOR ISLAMIC BANK بنك نور الإسلامي

Statement of financial position

as at 31 December 2012

	Note	2012 AED'000	2011 AED'000
ASSETS			
Cash and balances with the Central Bank of UAE	*4*	1,373,748	835,197
Due from banks and other financial institutions	*5*	3,589,274	2,974,591
Investments in Islamic financing instruments	*6*	10,304,354	10,640,970
Investments in Islamic sukuk	*7*	1,716,282	1,308,855
Investment properties	*8*	83,948	18,073
Other assets	*9*	173,681	358,463
Property and equipment	*10*	713,293	740,902
Total assets		17,954,580	16,877,051
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	*11*	13,659,394	11,567,959
Due to banks and other financial institutions	*12*	1,789,153	2,912,291
Other liabilities	*13*	322,595	438,849
Total liabilities		15,771,142	14,919,099
Equity			
Share capital	*14*	3,157,895	3,157,895
Subscribed share capital	*14*	150,000	-
Statutory reserve	*15*	63,566	56,008
Cumulative changes in fair value of available-for-sale Islamic sukuk		1,669	1,759
Accumulated losses		(1,189,692)	(1,257,710)
Total equity		2,183,438	1,957,952
Total liabilities and equity		17,954,580	16,877,051

These financial statements were approved by the Board of Directors on27 March 2013and signed on its behalf by:

…………
Director

…………
Director

The accompanying notes on pages 9 to 58 form an integral part of these financial statements.

Income statement
for the year ended 31 December 2012

	Note	2012 AED'000	2011 AED'000
Income			
Income from Islamic financing and sukuk	*16*	592,163	669,698
Depositors' share of profit	*17*	(293,015)	(324,292)
Net income		299,148	345,406
Fee and other income, net of charges	*18*	210,345	691,388
Gain on investments in Islamic sukuk	*19*	42,448	17,635
Total income		551,941	1,054,429
Expenses			
Staff costs	*20*	(142,599)	(182,710)
General and administration expenses		(133,646)	(138,206)
Depreciation	*10*	(33,726)	(39,215)
Total expenses		(309,971)	(360,131)
Net operating profit		241,970	694,298
Impairment charge on Islamic financing instruments	*6*	(166,394)	(645,146)
Profit for the year		75,576	49,152

The accompanying notes on pages 9 to 58 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2012

	Note	2012 AED'000	2011 AED'000
Profit for the year		75,576	49,152
Other comprehensive income			
- Net changes in fair value		28,764	14,434
- Net realised gain transferred to income statement on disposal of available for sale investment in Islamic sukuk	*19*	(28,854)	(14,912)
Total comprehensive income for the year		75,486	48,674

The accompanying notes on pages 9 to 58 form an integral part of these financial statements.

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

	Share capital AED'000	Subscribed share capital AED'000	Statutory reserve AED'000	Cumulative changes in fair value of available-for- sale investment in Islamic sukuk AED'000	Accumulated losses AED'000	Total AED'000
At 1 January 2011	3,157,895	-	51,093	2,237	(1,301,947)	1,909,278
Total comprehensive income for the year						
Profit for the year	-	-	-	-	49,152	49,152
Net changes in fair value	-		-	14,434	-	14,434
Net realised gain transferred to income statement on disposal of available for sale investment in Islamic sukuk	-	-	-	(14,912)	-	(14,912)
	-	-	-	(478)	49,152	48,674
Other equity movements						
Transfer to statutory reserve (refer note 15)	-	-	4,915	-	(4,915)	-
At 31 December 2011	**3,157,895**	-	**56,008**	**1,759**	**(1,257,710)**	**1,957,952**
Total comprehensive income for the year						
Profit for the year	-		-	-	75,576	75,576
Net changes in fair value	-		-	28,764	-	28,764
Net realised gain transferred to income statement on disposal of available for sale investment in Islamic sukuk	-	-	-	(28,854)	-	(28,854)
	-	-	-	(90)	75,576	75,486
Other equity movements						
Subscription for issued share capital (refer note 14)	-	150,000	-	-	-	150,000
Transfer to statutory reserve (refer note 15)	-	-	7,558	--	(7,558)	-
At 31 December 2012	**3,157,895**	**150,000**	**63,566**	**1,669**	**(1,189,692)**	**2,183,438**

The accompanying notes on pages 9 to 58 form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2012

	Note	2012 AED'000	2011 AED'000
Operating activities			
Profit for the year		75,576	49,152
Adjustments for:			
Allowance for impairment loss	6	166,394	645,146
Change in fair value of investment properties	8	(5,290)	-
Property and equipment disposed/written off	10	107	10,227
Depreciation	10	33,726	39,215
Operating cash flows before changes in operating assets and liabilities		270,513	743,740
Changes in operating assets and liabilities:			
Statutory reserve with the Central Bank of UAE	4	195,744	55,668
Due from banks and other financial institutions	5	(614,683)	(71,006)
Investments in Islamic financing instruments	6	170,222	1,192,162
Other assets	9	189,782	107,542
Customers' deposits	11	2,091,435	(2,013,364)
Due to banks and other financial institutions	12	(1,123,138)	563,844
Other liabilities	13	(116,254)	85,170
Net cash generated from operating activities		1,063,621	663,756
Investing activities			
Additions to investment properties	8	(60,585)	-
Investments in Islamic sukuk	7	(407,517)	(599,920)
Investments in certificate of deposits	4	(100,000)	-
Additional investment in other equity investments	9	(5,000)	-
Additions to property and equipment	10	(6,224)	(5,905)
Net cash used in investing activities		(579,326)	(605,825)
Financing activity			
Subscription received towards subscribed share capital	14	150,000	-
Net increase in cash and cash equivalents		634,295	57,931
Cash and cash equivalents at beginning of the year	4	165,935	108,004
Cash and cash equivalents at end of the year	4	800,230	165,935

The accompanying notes on pages 9 to 58 form an integral part of these financial statements.

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

1 Incorporation and principal activities

Noor Islamic Bank (P.J.S.C.) ("the Bank") was incorporated on 26 March 2007as a Public Joint Stock Company under UAE Federal Law No. 8 of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates ("UAE"). The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bankwas registered with the Securities and Commodities Authority ("SCA") on 26 April 2007 and commenced its operations thereafter.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic instruments such as Murabahah, Wakalah, Tawarruq, Ijarah, Istisna'and Islamic sukuk. The activities of the Bank are conducted in accordance with the Shari'a rules and principles as applied and interpreted by the Bank's Fatwa and Shari'a Supervisory Board and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

During the year ended 31 December 2011, the Bank became a subsidiary of Noor Investment Group LLC ("NIG" or "the parent company"), upon acquisition of 95% of the shareholding in the Bank by the parent company from the existing shareholders of the Bank. NIG is a limited liability company registered in the Emirate of Dubai under UAE Federal Law No. 8 of 1984 (as amended).

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB).

2.2 Basis of measurement

These financial statements have been prepared under the historical cost basis, except for the fair value measurement of following material items in the statement financial position:

- Financial assets and liabilities held for trading.
- Investment in Islamic sukuk classified as available-for-sale and fair value through profit or loss.
- Investment properties.
- Land and buildings classified under property and equipment.

2.3 Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Bank's functional currency. Except as indicated, the financial information has been rounded to the nearest thousand.

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

2 Basis of preparation (continued)

2.4 Use of estimates and judgements

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

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

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described as follows:

(a) Impairment loss on investments in Islamic financing instruments

The Bank reviews its financing portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recognised, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the collection from customers in a group. Management uses estimates based on historical loss experience for financing with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Classification of investments in Islamic sukukas Held-to-Maturity ("HTM")

In accordance with IAS 39 guidance, the Bank classifies its investments in Islamic sukuk with fixed or determinable payments and fixed maturities as HTM which requires significant judgment in evaluating Bank's intention and ability to hold such investments until maturity. Except for certain specific circumstances, any sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments as available-for-sale, and would prevent the Bank from classifying investment in Islamic sukuk as HTM for the current and the following two financial years.

(c) Fair valuation of investment properties and land and buildings under property and equipment

The fair valuation of investment properties and buildings and certain plots of land classified under property and equipment is based on estimated value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS").The fair valuation of remaining plots of land is determined by the Dubai Land Department. In undertaking the valuation the valuation expertshave made a number of assumptions and relied upon various sources of information. Those assumptions are based on reasonable knowledge and other information available about the property.

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

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

(d) Estimated useful life and residual value of property, plant and equipment

The Bank's management determines the estimated useful lives and related depreciation charges for its property and equipment at least on an annual basis. The Bank carries out a review of the residual values and useful lives of property, plant and equipment at the reporting date and makes necessary changes to the residual value and useful life of the property and equipment, if required. Residual value in case of all property and equipment are assumed to be "AED 1".

2.5 Changes in accounting policies and disclosures

(a) New standards, amendments to published standards or IFRIC interpretations effective for the Bank's accounting period beginning on 1 January 2012

There are no new standards, amendments to published standards or IFRIC interpretations that are effective for the first time for the Bank's financial year beginning on or after 1 January 2012 that have had a material impact on the financial statements of the bank.

(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2012 and not early adopted by the Bank

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 will be effective for the accounting period beginning on or after 1 January 2015 and the Bank is yet to assess its full impact on the Bank's financial statements.

Amendment to IAS 1,'Financial statement presentation' regarding other comprehensive income (effective 1 July 2012). These amendments require entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

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

2 Basis of preparation (continued)

2.5 Changes in accounting policies and disclosures (continued)

(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2012 and not early adopted by the Bank(continued)

IFRS 10, Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent entity. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 will be effective for the accounting period beginning on or after 1 January 2013 and it does not have material impact on the Bank's financial statements.

IFRS 11, 'Joint Arrangements', pertains to reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. IFRS 11 will be effective for the accounting period beginning on or after 1 January 2013 and it does not have material impact on the Bank's financial statements

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 will be effective for the accounting period beginning on or after 1 January 2013 and it does not have material impact on the Bank's financial statements.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. IFRS 13 will be effective for the accounting period beginning on or after 1 January 2013. The management is yet to assess the full impact of this standard on the Bank's financial statements.

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

3 Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements:

3.1 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 income statement, as part of other customer related trading income under fee and other income, net of charges.

3.2 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding statutory deposits required to be maintained with the Central Bank of the UAE.

3.3 Due from banks and other financial institutions

Amounts due from banks and other financial institutions are stated at amortised cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.8)

3.4 Investments in Islamic financing instruments

Investments in Islamic financing instruments are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

Investments in Islamic financing instruments are initially measured at fair value including acquisition charges associated with the investments in Islamic financing instruments, if any.

Investments in Islamic financing instruments are subsequently measured at amortised cost using the effective profit rate method.

Following the initial recognition, subsequent transfers between the various classes of investments in Islamic financing instruments is not ordinarily permissible.

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

3 Significant accounting policies (continued)

3.5 Investment securities

3.5.1 Classification

The Bank classifies its investment securities in the following categories: Held-to-Maturity ("HTM") investment securities, Available-For-Sale ("AFS") investment securities and financial assets at fair value through profit or loss ("FVTPL"). Management determines the classification of its investments at initial recognition.

Held-to-maturity

Investment securities at HTM are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount from the HTM category, the entire category would be reclassified as AFS.

Available-for-sale

Investment securities at AFS are those non-derivative financial assets that are designated as AFS or are not classified as (a) investments in Islamic instruments, (b) HTM investments or (c) financial assets at fair value through profit or loss.

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

Investment securities at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

3.5.2 Recognition and measurement

Regular-way purchases and sales are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investment securities are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investment securities have expired or have been transferred and the Bank has transferred substantially all risk and rewards of ownership. AFS and FVTPL financial assets are subsequently measured at fair value. HTM financial assets are subsequently carried at amortized cost using the effective profit rate method. Impairment on investment securities classified as HTM is assessed as outlined in the accounting policy of impairment of financial assets.

Gains and losses arising from changes in the fair value of AFS financial assets are recognised in other comprehensive income, until the investment security is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity through other comprehensive income is recognized in the income statement.

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

3 Significant accounting policies (continued)

3.5 Investment securities (continued)

3.5.2 Recognition and measurement (continued)

Gains or losses arising from changes in the fair value of the FVTPL category are presented in the income statement within gain on investments in Islamic sukuk in the period in which they arise.

Foreign currency gains and losses arising on AFS monetary financial assets are directly recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for an investment security is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. In rare cases when the fair value of unlisted securities cannot be determined reliably, the securities are carried at cost less impairment.

Profit earned whilst holding investment securities (sukuk) is reported as part of income from Islamic financing and sukuk in the income statement.

The Bank assesses at each reporting date whether there is objective evidence that an investment security is impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement if there are subsequent increases in fair value. If, in a subsequent period, the fair value of a sukuk instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment is reversed through the income statement.

3.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation except for land and buildings, which are carried at fair value based on periodic valuations by an external independent valuer, less subsequent depreciation on buildings.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

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

3 Significant accounting policies (continued)

3.6 Property and equipment (continued)

Increases in the carrying amount arising on revaluation of land and buildings are recognised in the statement of other comprehensive income. Increases that offset previous decreases of the same asset shall be recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in the statement of other comprehensive income; all other decreases are charged to the income statement. Each year, the difference between the depreciation charge based on the revalued carrying amount of the asset and depreciation charge based on the asset's original cost or previous revalued amount is transferred from the revaluation reserve to retained earnings.

Land is not depreciated but is tested for impairment (note 3.9). Depreciation on other fixed assets is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	25
Leasehold improvements	10
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment and software	3-5

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Capital work in progress is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital work in progress is transferred to the appropriate category of property and equipment and depreciated in accordance with the Bank's accounting policies.

3.7 Investment property

Investment property comprises property held for rental yields and for capital appreciation. It is not held for purposes of the Bank's own use as part of property and equipment. The investment property is initially recognized at cost, including transaction expenses. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment property is determined on the basis of valuation undertaken by an independent valuer who holds a recognized and relevant qualification and has recent experience in the location and category of the investment property being valued. Gains and losses arising from changes in the fair value are recognized in the income statement in the period in which they arise.

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

3 Significant accounting policies (continued)

3.8 Impairment of financial assets

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a financing or HTM investment has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Bank's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of 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.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

3 Significant accounting policies (continued)

3.8 Impairment of financial assets (continued)

When a financial asset is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the income statement. Subsequent recoveries are credited to the income statement. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the income statement.

When the terms and conditions of financial assets that have been classified as past due are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.

3.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

3.10 Fiduciary activities

Assets and the income arising on the Bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these financial statements. Income earned by the Bank from its fiduciary services is recognised in accordance with the accounting policy on fees and other income (note 3.15).

3.11 Customers' deposits and amounts due to banks and other financial institutions

Customers' deposits and amounts due to banks and other financial institutions are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost using the effective profit rate method. Amortized cost is calculated by taking into account any discount or premium on settlement.

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

3 Significant accounting policies (continued)

3.12 Employee benefits

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security and are charged to the income statement.

Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE Labour Law, for their period of service up to the statement of financial position date. This amount is charged to the income statement. The provision for estimated liability of employees' entitlements to annual leave and leave passage is included in other payables.

3.13 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.14 Revenue recognition on investments in Islamic financing instruments

Income from Islamic financing and sukuk and Depositors' share of profit are recognized in the income statement for all profit-bearing Islamic financial instruments below using the effective profit rate method.

The effective profit rate method is a method of calculating the amortized cost of a financial asset or liability and of allocating the Income from Islamic financing and sukuk and Depositors' share of profit. The effective profit rate is the rate that exactly discounts the estimated future cash payments over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

3.14.1 Murabahah

Definition

An agreement whereby the Bank sells to a customer a physical asset, commodity, goods, or shares, which the Bank has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin. The settlement specified in the agreement is normally either on deferred lump sum basis or an instalment basis.

Revenue recognition

Income on Murabahah financing is recognized on a time apportioned basis over the period of the Murabahah contract.

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

3 Significant accounting policies (continued)

3.14 Revenue recognition on investments in Islamic financing instruments(continued)

3.14.2 Ijarah

Definition

An agreement whereby the Bank (lessor) leases to a customer (lessee) a service or the usufruct of an owned or rented physical asset which either exists currently or is to be constructed in future (forward lease), for a specific period of time and against certain rental instalments. The ownership of the leased asset remains in the hands of the Bank throughout the lease period. The Ijarah could end by transferring the ownership of the asset to the lessee through an independent mode at the end of the agreement.

Revenue recognition

Income from Ijarah investments are recognized on a time apportioned basis over the lease term.

3.14.3 Mudarabah

Definition

An agreement between the Bank and its customer where one of them provides the funds and is called Rab al-Mal and the other provides efforts and expertise and is called the Mudarib. The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. The Mudarib is responsible for all losses arising from misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

Revenue recognition

Income or losses on Mudarabah investments, where the Bank is the Rab-al-Mal are recognized on an accruals basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

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

3 Significant accounting policies (continued)

3.14 Revenue recognition on investments in Islamic financing instruments (continued)

3.14.4 Wakalah

Definition

An agreement whereby the Bank provides a certain sum of money to an agent who invests it according to specific conditions in return for a fee (a lump sum of money or a percentage above the anticipated profits).

Revenue recognition

The estimated income from a wakalah is recognized on an accrual basis over the period of the investment, adjusted by the actual income when received.

3.14.5 Tawarruq

Definition

An agreement between two parties, whereby the Bank will, directly or indirectly, buy an asset and immediately sell it to a customer on a deferred payment basis. The Bank on behalf of the customer then sells the same asset to a third party for immediate delivery and payment. The customer is given the sales proceeds and has a deferred payment obligation at a marked-up price to the Bank.

Revenue recognition

Income or losses on Tawarruq financing are recognized on an accruals basis.

3.14.6 Istisna'

Definition

An agreement whereby the Bank (Al-Saane') sells an asset to be developed using its own materials to a customer (Al-Mustasne') according to pre-agreed specification, at a specific price, and date. The asset can be developed directly by the Bank or another party on completion and is delivered to the customer on the agreed date.

Revenue recognition

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

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

3 Significant accounting policies (continued)

3.15 Fees and other income

Fees and other income from banking services provided are recognized on an accrual basis when the service has been provided.

Other customer related trading income is recognised as and when the underlying customer related exchange transactions are completed.

3.16 Zakat

Zakat is computed in accordance with the Bank's Fatwa and Shari'a Supervisory Board decisions and it is the Bank's shareholders' responsibility to pay the Zakat on their respective share.

3.17 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures and is approved by the Bank's Fatwa and Sharia'a Supervisory Board.

3.18 Offsetting of financial assets and liabilities

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

3.19 Financial guarantees

In the ordinary course of business, the Bank extends credit related commitments consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The premium received is recognized in the income statement over the life of the guarantee.

3.20 Government grants

Non-monetary grants in the form of land received from the government are initially recognized at fair value and credited to the income statement when there is reasonable assurance that the grant will not be revoked.

3.21 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on financings that are in default. Repossessed properties are measured at the lower of cost or net realisable value.

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

3 Significant accounting policies (continued)

3.22 Promise to Buy or Sell Currencies.

Promises to buy or sell currencies are promises to either buy or sell a specified currency at a specified price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase or sell offers and acceptances between the counterparties.

3.23 Islamic swaps

Islamic swaps are based on a Waa'd (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant dare in future. It is conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swaps structure comprises profit rate swap and currency swap. In case of islamic profit rate swaps, a counterparties generally exchange fixed and floating rate profit payments by executing the purchase / sale of commodity under "Murabaha Sale Agreement" in a single currency. In case of islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase or sale of commodity under "Murabaha Sale Agreeement".

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

4 Cash and balances with the Central Bank of UAE

	2012 AED'000	2011 AED'000
Cash in hand	100,520	91,107
Current account with the Central Bank of UAE	94,710	74,828
Certificate of deposits with the Central Bank of UAE	705,000	-
Statutory deposit with the Central Bank of UAE	473,518	669,262
	1,373,748	835,197
Less: Certificate of deposits having original maturity of more than 3 months	(100,000)	-
Less: Statutory deposit with the Central Bank of UAE	(473,518)	(669,262)
Cash and cash equivalents	800,230	165,935

The statutory deposit with the Central Bank of UAE is not available to finance the day to day operations of the Bank. Cash in hand, current account balances and statutory deposit with the UAE Central Bank are non-profit bearing. Certificate of deposits with the Central Bank of UAE carry a profit rate of 0% - 0.5%per annum.

5 Due from banks and other financial institutions

	2012 AED'000	2011 AED'000
Deposits with banks	2,925,152	2,187,849
Deposits with other financial institutions	621,483	633,634
Current accounts with banks	91,562	202,031
Grossdue from banks and other financial institutions	3,638,197	3,023,514
Less : allowance for impairment (refer note 6 (ii))	(48,923)	(48,923)
Netdue from banks and other financial institutions	3,589,274	2,974,591

Due from banks and other financial institutions include AED 2.6 billion (2011: AED 2 billion receivable from two customers) receivable from 5 customers.

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

6 Investments in Islamic financing instruments

	2012 AED'000	2011 AED'000
Wakalah	3,484,028	3,421,992
Tawarruq	4,462,666	4,746,372
Ijarah	3,118,688	3,123,825
Murabahah	805,683	763,950
Gross investment in Islamic financing instruments	11,871,065	12,056,139
Less : allowance for impairment	(1,566,711)	(1,415,169)
Net investment in Islamic financing instruments	10,304,354	10,640,970

At 31 December 2011, Ijarah included AED 140 million collateralised against an equivalent amount included in due to banks and financial institutions.

Movement in allowance for impairment:

	2012 AED'000	2011 AED'000
At 1 January	1,415,169	996,421
Charge for the year (net of recoveries/releases)	166,394	645,146
	1,581,563	1,641,567
Adjustment for profit in suspense (refer note (i) below)	-	(140,075)
Reclassification to due from banks and other financial institutions (refer note (ii) below)	-	(48,923)
Written off during the year	(14,852)	(37,400)
At 31 December	1,566,711	1,415,169

(i) At 1 January 2011, an amount of AED 140 million representing profit-in-suspense was included under "allowance for impairment loss". This amount has been re-grouped as a deduction from "Gross investment in Islamic financing instruments" in order to conform to the presentation adopted in these financial statements.

(ii) An amount of AED 48.9 million representing a balance due from a customer under due from banks and other financial institutions and related allowance for impairment loss (fully provided for) has been reclassified from "Investment in Islamic financing instruments" to "Due from banks and other financial institutions" (refer note 5).

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

6 Investments in Islamic financing instruments(continued)

Investments in Islamic financing instruments that have been restructured or are in the process of restructuring are set out below:

	Year ended 31 December	
	2012	2011
	AED'000	AED'000
Corporate and SME	2,040,724	1,429,721
Retail	129,658	68,849
	2,170,382	1,498,570

The investments in Islamic financing instruments are summarised as follows:

	2012	2011
	AED'000	AED'000
Performing	7,797,585	5,665,922
Past due but not impaired	1,016,505	2,377,615
Impaired	3,056,975	4,012,602
Gross investment in Islamic financing instruments	11,871,065	12,056,139
Less : allowance for impairment	(1,566,711)	(1,415,169)
Net investment in Islamic financing instruments	10,304,354	10,640,970

Summary of past due but not impaired:

	2012	2011
	AED'000	AED'000
0 – 29 days	398,891	1,199,103
30 – 59 days	39,881	66,803
60 – 89 days	5,151	39,759
90 days and above	572,582	1,071,950
	1,016,505	2,377,615

Subsequent to the year-end, a balance of AED 550 million receivable from one customer (classified under "90 days and above") was regularised upon settlement of the outstanding profit in accordance with the proposed restructuring agreement.

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

6 Investments in Islamic financing instruments(continued)

Below is the analysis of impaired balances:

	2012 AED'000	2011 AED'000
Impaired but not past due	222,878	484,645
Past due and impaired	2,834,097	3,527,957
	3,056,975	4,012,602

Economic sector risk concentration (refer to note 23 for related party credit risk concentration) and related provision for impairment allowance:

	2012 AED'000	2011 AED'000
Financial services	2,376,170	2,609,010
Real estate	2,133,900	3,016,655
Government	832,814	853,951
Consumer financings and credit cards	2,939,595	2,716,888
Retail, hospitality and food commodities	1,338,645	1,220,268
Transport and contracting	1,327,083	815,753
Utilities	139,938	183,650
Manufacturing	289,293	279,739
Others	493,627	360,225
Gross investment in Islamic financing instruments	11,871,065	12,056,139
Less: allowance for impairment	(1,566,711)	(1,415,169)
Net investment in Islamic financing instruments	10,304,354	10,640,970

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

7 Investments in Islamic sukuk

	2012 AED'000	2011 AED'000
Held to maturity	673,295	673,428
Available-for-sale	859,632	554,221
Held for trading	183,355	81,206
	1,716,282	1,308,855

At 31 December 2012, the quoted market price of the held to maturity Islamic Sukukwas AED 681 million (2011: AED 654 million).

At 31 December 2012, the Bank recognised net fair value loss on available-for-sale investments in Islamic sukuk of AED 0.09 million (2011: loss of AED 0.4 million) in the other comprehensive income under "cumulative changes in fair value of available-for-sale investment in Islamic sukuk.

At 31 December 2012, Islamic sukuk with amarket value of AED 283 million (2011: AED 277 million)have been pledged as collateral against a wakala deposit from a bank (note 12).

The Bank holds certain Islamic sukuk in fiduciary capacity on behalf of the customers without recourse to itself and accordingly the same are not included in Bank's own Islamic Sukuk portfolio as at 31 December 2012 (refer note 22).

8 Investment properties

	2012 AED'000	2011 AED'000
At 1 January	18,073	-
Additions during the year	60,585	18,073
Change in fair value during the year (refer note 18)	5,290	-
At 31 December	83,948	18,073

The carrying value of investment properties represents their fair value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). Additions during the year represent acquisition of investment properties in relation to which the final instalment has been paid on completion of construction. The Bank intends to hold the property for rental yields and capital appreciation purpose. Also refer note 9 (ii).

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

9 Other assets

	2012 AED'000	2011 AED'000
Accrued income from Islamic financing and sukuk	129,759	99,632
Due from related parties (refer note 23 and (i) below)	9,063	193,549
Advances against purchase of properties (refer note 8 and (ii) below)	-	22,523
Equity investments in related companies (refer note (iii) below)	26,530	21,530
Prepayments and advances	8,329	11,492
Others	-	9,737
	173,681	358,463

(i) At 31 December 2011, due from related parties included an amount of AED 187 million advanced to the parent company. The balance has been settled subsequently during the year ended 31 December 2012.

(ii) During the year, advances against purchase of properties of AED 22.5 million have been transferred to "Investment properties" (refer note 8).

(iii) Equity investments in related companies at 31 December 2012 and 31 December 2011, held as available-for-sale financial assets at cost, represent the Bank's share of its investment in the following entities:

	Shareholding structure	
	NoorIslamic Bank P.J.S.C.	*Noor Inves*tment Group LLC
Noor Takaful Family P.J.S.C.	10%	90%
Noor Takaful General P.J.S.C.	10%	90%
Premium Marketing LLC	10%	90%
Noor BPO LLC	30%	70%

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

10 Property and equipment

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
Cost/fair value							
At 1 January 2012	573,453	103,616	35,110	1,465	148,888	3,325	865,857
Additions during the year	-	-	163	855	1,890	3,316	6,224
Transfers	-	-	-	-	107	(107)	-
Disposals and write-offs	-	-	-	(650)	(912)	-	(1,562)
At 31 December 2012	**573,453**	**103,616**	**35,273**	**1,670**	**149,973**	**6,534**	**870,519**
Depreciation							
At 1 January 2012	-	9,076	11,118	1,211	103,550	-	124,955
Charge for the year	-	4,538	3,521	245	25,422	-	33,726
Disposals and write-offs	-	-	-	(650)	(805)	-	(1,455)
At 31 December 2012	**-**	**13,614**	**14,639**	**806**	**128,167**	**-**	**157,226**
Net book value							
At 31 December 2012	**573,453**	**90,002**	**20,634**	**864**	**21,806**	**6,534**	**713,293**

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

10 Property and equipment (continued)

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
Cost / fair value							
At 1 January 2011	573,453	103,616	45,386	1,465	145,354	6,225	875,499
Additions during the year	-	-	543	-	3,801	1,562	5,906
Transfers	-	-	521	-	3,177	(3,698)	-
Disposals and write-offs	-	-	(11,338)	-	(3,445)	(764)	(15,547)
At 31 December 2011	**573,453**	**103,616**	**35,111**	**1,465**	**148,887**	**3,325**	**865,858**
Depreciation							
At 1 January 2011	-	4,538	10,205	940	75,378	-	91,061
Charge for the year	-	4,538	3,984	271	30,422	-	39,215
Disposals and write-offs	-	-	(3,070)	-	(2,250)	-	(5,320)
At 31 December 2011	**-**	**9,076**	**11,119**	**1,211**	**103,550**	**-**	**124,956**
Net book value							
At 31 December 2011	**573,453**	**94,540**	**23,993**	**254**	**45,337**	**3,325**	**740,902**

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

10 Property and equipment (continued)

(i) Buildings are located at Emaar Square, Dubai, and are used as the Bank's Head Office premises;

(ii) Land comprises certain vacant plots granted by the Government of Dubai to the Bank at various locations in Dubai during the financial year 2007and are held for future use by the Bank.

11 Customers' deposits

	2012 AED'000	2011 AED'000
Wakalah deposits	10,704,911	7,391,021
Mudarabah – savings	1,028,392	798,559
Mudarabah- term	287,960	437,137
Margin accounts	19,452	71,764
Qard-E-Hasan (escrow accounts)	19,396	27,132
Qard-E-Hasan (current accounts)	1,599,283	2,842,346
	13,659,394	11,567,959

Wakalah deposits include an amount of AED 771 million (2011: AED 771 million) received from the UAE Federal Government, Ministry of Finance during the period ended 31 December 2008. During the year ended 31 December 2009, the Bank entered into an agreement with the UAE Federal Government, Ministry of Finance to convert the medium term wakalah deposit into Tier II capital effective 31 December 2009for the purpose of regulatory capital calculations. In accordance with the agreement, the deposit is due for maturity on 31 December 2016 and has a pre-determined fixed profit rate for each year until maturity. The agreement also contains provisions that the wakalah deposit shall be converted into Tier I capital, in the event of any default by the Bank.

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

12 Due to banks and other financial institutions

	2012 AED'000	2011 AED'000
Investment deposits	1,742,205	2,533,023
Current accounts	46,948	379,268
	1,789,153	2,912,291

At 31 December 2012, investment in Islamic sukuk with a market value of AED 283 million(2011: AED 277 million) have been pledged as collateral against a wakala deposit of AED 186 million (2011: AED 186 million) obtained from a bank (also refer note 7).

13 Other liabilities

	2012 AED'000	2011 AED'000
Other accruals	113,622	172,228
Accrued depositors' share of profit	93,293	68,595
Managers checks	23,270	20,047
Provision for employees' end of service benefits (refer note 21)	13,662	12,652
Deferred income from Islamic financing and sukuk	12,629	9,026
Promise to buy or sell currency (refer note (i) below)	1,236	85,357
Islamic profit rate swaps (refer note (ii) below)	-	3,572
Other payables	64,883	67,372
	322,595	438,849

(i) Represents mark-to-market fair valuation of Promise to Buy or Sell Currency held by the Bank for its currency risk management purposes. The outstanding commitments on these Promise to Buy or Sell Currency amounted to AED 1.7 billion at 31 December 2012 (31 December 2011: AED 2.4 billion).

(ii) Represents mark-to-market fair valuation of Islamic profit rate swaps held by the Bank for its profit risk management purposes. The outstanding commitments on these Islamic profit rate swaps amounted to AED 488 million (2011: AED 184 million).

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

14 Share capital

	2012 AED'000	2011 AED'000
Authorised, issued and fully paid up share capital:		
3,157.9 million shares ofAED 1 each	3,157,895	3,157,895
Subscribed share capital	150,000	-
	3,307,895	3,157,895

During the year ended 31 December 2011, 95% shareholding in the Bank was acquired by Noor Investment Group LLC ("NIG") from the existing shareholders of the Bank (note 1).

The subscribed share capital has been subscribed to by NIG at par value in 2012 for the purpose of holding the shares, when issued, as trustee for the beneficial interest of the Employee Share Scheme granted to key management personnel of the Bank. The subscribed share capital is fully paid up and approved by the Board of Directors of the Bank and the Central Bank of the UAE. The statutory share capital of the Bank will be increased in 2013 after completion of the necessary administrative and legal formalities.

The Employee Share Scheme has been established for certain key management personnel of the Bank for services provided to NIG and its subsidiaries and, accordingly, any expense resulting from grants of awards under the Employee Share Scheme will be borne by NIG.

15 Statutory reserve

The UAE Federal Law No. 8 of 1984 (as amended), and the UAE Union Law No. 10 of 1980 (as amended) and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. A transfer of AED 7.6 million (2011: 4.9 million) has been made to the statutory reserve for the year. This reserve is not available for distribution.

16 Income from Islamic financing and sukuk

	2012 AED'000	2011 AED'000
Tawarruq	274,067	311,410
Wakalah	130,818	125,762
Ijarah	89,333	139,131
Murabahah	36,883	41,631
	531,101	617,934
Profit income on Islamic sukuk	61,062	51,764
Total income from Islamic financing and sukuk	592,163	669,698

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

17 Depositors' share of profit

	2012 AED'000	2011 AED'000
Wakalah deposits	278,422	284,629
Mudarabah deposits	6,829	11,316
Mudarabah accounts	6,648	11,099
Murabahah	1,116	17,248
	293,015	324,292

18 Fee and other income, net of charges

	2012 AED'000	2011 AED'000
Trade related processing fees	91,657	101,331
Other customer related trading income	98,342	574,904
Fees from credit cards	15,056	15,153
Fair value gain on investment properties (refer note 8)	5,290	-
	210,345	691,388

19 Gain on investments in Islamic sukuk

	2012 AED'000	2011 AED'000
Held for trading	13,594	2,723
Available-for-sale – realised gains	28,854	14,912
	42,448	17,635

20 Staff costs

	2012 AED'000	2011 AED'000
Salaries and allowances	125,975	169,928
Provision for employees' end of service benefits (refer note 21)	5,637	4,801
Others	10,987	7,981
	142,599	182,710

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

21 Provision for employees' end of service benefits

	2012 AED'000	2011 AED'000
At 1 January	12,652	12,484
Provided during the year	5,637	4,801
Paid during the year	(4,627)	(4,633)
At 31 December	13,662	12,652

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using an appropriate discount rate. Under this method an assessment has been made of an employee's expected service life with the Bank and the expected basic salary at the date of leaving the service.

22 Fiduciary assets

At 31 December 2012, the Bank holds certain Islamic sukuk having a market value of AED 284 million (2011: AED 106 million) in a fiduciary capacity on behalf of the customers without recourse to itself. Accordingly, such Islamic Sukuk are not included under Bank's own Islamic sukuk portfolio as disclosed in these financial statements (refer note 7).

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

23 Related party balances and transactions

The Bank, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, Related party Disclosures. Significant balances and transactions with related parties are as follows:

Related party balances:

	31 December 2012			31 December 2011		
	Shareholders and other related parties AED'000	Key management personnel AED'000	Total AED'000	Shareholders and other related parties AED'000	Key management personnel AED'000	Total AED'000
Investments in Islamic financing instruments, net, comprising Government related entities	4,154,111	14,993	4,169,104	4,211,437	27,672	4,239,109
Due to banks and other financial institutions	141,287	-	141,287	66,024	-	66,024
Customers' deposits	355,123	47,177	402,300	592,554	10,607	603,161
Due from related parties (refer note 9)	35,593	-	35,593	215,079	-	215,079
Accrued income from Islamic financing instruments (refer note 9)	29,792	6	29,798	62,943	438	63,381
Accrued depositors' share of profit (refer note 13)	9,025	388	9,413	4,050	368	4,418

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

23 Related party balances and transactions (continued)

Related party transactions:

	Year ended 31 December 2012			Year ended 31 December 2011		
	Shareholders and other related parties AED'000	Key management personnel AED'000	Total AED'000	Shareholders and other related parties AED'000	Key management personnel AED'000	Total AED'000
Income from Islamic financing and sukuk	48,999	150	49,149	52,074	872	52,946
Depositors' share of profit	5,059	29	5,088	1,820	70	1,890
General & administration expenses recharges received	47,091	-	47,091	45,745	-	45,745
Remuneration to key management personnel	-	21,001	21,001	-	19,540	19,540

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

24 Commitments and contingent liabilities

(a) Contingent liabilities

	2012 AED'000	2011 AED'000
Letters of credit	727,682	412,925
Guarantees	925,198	720,727
Undrawn credit commitments	3,656,760	3,327,365
Total	5,309,640	4,461,017

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Bank monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(b) Capital commitments

At 31 December 2012, the bank has capital commitments of AED 32 million (2011: AED 40 million mainly relating to purchase of office units)mainly relating to purchase of furniture, fixtures, computer equipment and development/up-gradation of various software.

25 Risk management

The Bank has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risks
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management philosophy and framework

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the following committees, which are responsible for overseeing, developing and monitoring the Bank`s risk management policies in their specified areas:

Executive Committee
The Executive Committee is responsible for ensuring that the Bank has an adequate and appropriate system of risk management and internal controls with the support of the Audit Committee and Risk Committee.

Risk Committee
The Risk Committee is responsible for providing an oversight for compliance with overall risk management policies and procedures established within the Bank. The Risk Committee comprises of at least three members (including at least one non-executive director and one 'risk expert' as determined by the Board of Directors).

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

25 Risk management(continued)

Risk management philosophy and framework (continued)

Audit Committee
The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, compliance with laws and regulations, compliance with code of conduct and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit Committee
The Credit Committee is responsible for taking credit decisions, recommending credit policies, and the future direction of the credit activities in the Bank. The Board of Directors has delegated its authority to Credit Committee to approve, sub-delegate, direct, monitor and review the Bank's financing activities, and to ensure that the credit policies are adhered to, and credit operations are conducted in the most effective manner.

Operational Risk Committee
The Operational Risk Committee is responsible for overseeing, managing and ensuring that that all aspects of Operational Risk policies and standards are effectively implemented, and the framework to monitor and report Operational Risk issues is functioning effectively to protect the interests of the Bank and promotes high level Operational Risk management culture in the Bank.

Management Committee
The Management Committee is responsible for overseeing and managing day-to-day business to attain sustained performance excellence, by conscientiously taking into account the prevalent and future risk environment, consistent with the Bank's vision, mission and strategy in accordance with good corporate governance principles, and in line with the significant stakeholders' expectations.

Asset Liability Committee ("ALCO")
The responsibility of ALCO is to actively monitor and manage committed and outstanding assets and liabilities, and to recommend appropriate funding, investment, and hedging strategies. In addition, the ALCO is also responsible for ensuring continuous liquidity required for growth while complying with the regulatory requirements.

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

25 Risk management(continued)

25.1 Credit risk

Credit risk is the risk that a counter party does not fulfil its contractual obligation or the quality of an issuer deteriorates. It arises principally from financing, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

The Bank's maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2012 AED'000	2011 AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks and other financial institutions	3,589,274	2,974,591
Investments in Islamic financing instruments	10,304,354	10,640,970
Investment in Islamic sukuk	1,716,282	1,308,855
Other assets	144,387	327,032
	15,754,297	15,251,448
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	5,309,640	4,461,017

The above table represents a worst case scenario of credit risk exposure of the Bank at the reporting date without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position at the reporting date.

At 31 December 2012, 65% (2011: 68%) of the total maximum exposure arises from investments in Islamic financing instruments for which credit quality and risk concentration are disclosed in Note 6. Balances due from banks and other financial institutions are held with reputable organisations within and outside UAE, where the risk of default is considered low.

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

25 Risk management(continued)

25.1 Credit risk (continued)

The table below presents an analysis of the investment in Islamic sukuk based on ratings obtained from external rating agencies:

	2012 AED'000	2011 AED'000
AAA	-	41,645
AA	54,296	89,181
AA-	45,866	24,329
A+	167,491	192,438
A	174,000	98,074
A-	-	8,372
BBB+	387,147	247,733
BBB-	116,434	160,067
BB+	-	114,081
B-	-	315,000
B+	315,000	-
BB	14,429	-
BBB	135,326	-
CCC	-	75
Unrated	306,293	17,860
Total	1,716,282	1,308,855

Following are the risk management policies adopted by the Bank to ensure credit quality and minimise the risk of concentration.

(a) Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Bank's asset portfolio and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A standard numeric credit risk-grading system is being used by the Bank which is based on the Bank's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a scale of NRR1 to NRR7, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated NP-1, NP-2 and NP-3, corresponding to the Substandard, Doubtful and Loss classifications as per *Clarifications and Guidelines Manual for Circular No. 28/2011* issued by the Central bank of UAE. The Bank's internal credit grades have also been mapped to external agency ratings for better comparison.

25 Risk management(continued)

25.1 Credit risk (continued)

(b) Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Bank's Credit Committee ("CC") within the authorities delegated by the Board of Directors.

(c) Credit monitoring

The Bank regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to risk committees, containing information on key variables; portfolio delinquency and financing impairment performance.

Corporate accounts are placed on a watch list when they display signs of weakness or financial deterioration, for example, where there is a decline in the customer's position within the industry, a breach of covenants, non-performance of an obligation, or when there is a significant reorganisation of ownership or management.

Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of remedial team (specialist recovery unit), where required.

With respect to the Bank's consumer portfolio, delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked which forms an input for future financing decisions. Accounts which are past due are subject to collection process, managed independently by the risk function.

(d) Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit. Risk mitigation policies control the approval of collateral types.

Collateralis valued in accordance with the Bank's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

25 Risk management(continued)

25.1 Credit risk (continued)

(d) Credit mitigation (continued)

Collateral and other credit enhancements possessed or called upon

During the year, the Bank obtained assets by taking possession of collateral as follows:

	31 December 2012			31 December 2011		
	Retail AED'000	**Corporate and SME AED'000**	**Total AED'000**	Retail AED'000	Corporate and SME AED'000	Total AED'000
Property	4,546	-	4,546	-	-	-
Vehicles	792	-	792	4,662	-	4,662
	5,338	-	5,338	4,662	-	4,662

Repossessed collateral is disposed of as per the bank's approved policy.

25.2 Liquidity risk

Liquidity risk is the risk to the Bank's earnings or capital arising from its inability to meet its obligations as they fall due, without incurring significant costs or losses. A bank's ability to withstand either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost depends on the adequacy of its liquidity contingency plans. The Bank's Asset Liability Committee ("ALCO") actively monitors and manages all committed and outstanding assets and liabilities, to recommend appropriate funding, investment and hedging strategies. In addition to that, ALCO ensures adequate liquidity exists to sustain the growth while complying with regulatory requirements.

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

25 Risk management(continued)

25.2 Liquidity risk (continued)

The following table presents the cash flow analysis of remaining contractual maturities of Bank's financial liabilities on an undiscounted basis, relating to both principal and profit payments:

At 31 December 2012	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
Customers' deposits	13,659,394	6,731,617	5,892,685	1,250,285	-	13,874,587
Due to banks and other financial institutions	1,789,153	1,246,775	518,702	52,302	-	1,817,779
Other liabilities	309,966	116,563	179,741	-	13,662	309,966
	15,758,513	8,094,955	6,591,128	1,302,587	13,662	16,002,332
At 31 December 2011						
Customers' deposits	11,567,959	8,524,715	1,605,523	1,711,249	-	11,841,487
Due to banks and other financial institutions	2,912,291	2,183,018	559,399	200,385	-	2,942,802
Other liabilities	429,823	240,823	176,348	-	12,652	429,823
	14,910,073	10,948,556	2,341,270	1,911,634	12,652	15,214,112

At 31 December 2012, the customers' deposits, include a concentration of AED 4.4 billion (2011: AED 4.8 billion from 6 customers) received from 5 customers. Although the customers' deposits due for maturity within 3 months are contractually of a short term nature, tend to be renewed on maturity and, therefore, remain with the Bank for the longer term. At 31 December 2012, due to banks and other financial institutions include AED 1.3 billion (2011: AED 1.4 billion received from one customer) received from 5 customers.

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

25 Risk management(continued)

25.3 Market risk

Market risk is the potential impact of adverse price movements such as benchmark rates, foreign exchange prices and commodity prices on the earnings/economic value of an asset. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and capital of the Bank. The market risk unit is responsible for monitoring and reporting market risk in the Bank.

(a) Profit rate risk

The following table summarises the financial assets and liabilities of the Bank, which are subject to profit rate risk, at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period:

At 31 December 2012 **Assets**	**Up to 3 months AED'000**	**3 months to 1 year AED'000**	**1 year to 5 years AED'000**	**More than 5 years AED'000**	**Total AED'000**	**Profit rate %**
Cash and balances with the Central Bank of UAE	1,273,748	75,000	25,000	-	1,373,748	0.03%
Due from banks and financial institutions	3,429,003	160,271	-	-	3,589,274	0.57%
Investments in Islamic financing instruments	5,876,118	3,302,110	1,054,647	71,479	10,304,354	4.39%
Investments in Islamic sukuk	180,848	541,386	949,833	44,215	1,716,282	3.51%
	10,759,717	4,078,767	2,029,480	115,694	16,983,658	
Liabilities						
Customers' deposits	6,689,958	6,540,146	429,290	-	13,659,394	1.99%
Due to banks and financial institutions	1,240,773	502,379	46,001	-	1,789,153	2.21%
	7,930,731	7,042,525	475,291	-	15,448,547	
Net position	2,828,986	(2,963,758)	1,554,189	115,694	1,535,111	

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

25 Risk management(continued)

25.3 Marketrisk (continued)

(a) Profit rate risk (continued)

At 31 December 2011	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000	Rate of return %
Assets						
Cash and balances with the Central Bank of UAE	835,197	-	-	-	835,197	-
Due from banks and financial institutions	2,727,345	247,246	-	-	2,974,591	1.43%
Investments in Islamic financing instruments	5,332,913	4,044,634	1,168,897	94,526	10,640,970	4.21%
Investments in Islamic sukuk	374,831	154,388	733,352	46,284	1,308,855	3.90%
	9,270,286	4,446,268	1,902,249	140,810	15,759,613	
Liabilities						
Customers' deposits	8,491,637	2,343,363	732,959	-	11,567,959	1.72%
Due to banks and financial institutions	2,170,797	551,597	189,897	-	2,912,291	1.62%
Islamic profit rate swaps	-	3,572	-	-	3,572	
	10,662,434	2,898,532	922,856	-	14,483,822	
Net position	(1,392,148)	1,547,736	979,393	140,809	1,275,790	

The impact of an 1% increase/decrease inthe profit rate of the Bank's net position is AED 1.3 million (2011: AED 1.5 million) on the Bank's equity at 31 December 2012 and income statement for the year ended 31 December 2012. The analysis is based on the assumptions that all other variables will remain constant.

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

25 Risk management(continued)

25.3 Market risk(continued)

(b) Foreign currency risk

Foreign currency risk represents the risk of change in the fair value of financial instruments due to changes in foreign exchange rates.The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. At the end of the year, the Bank had the following significant net foreign currency exposures:

At 31 December 2012	**AED AED'000**	**US$ AED'000**	**EUR AED'000**	**Others AED'000**	**Total AED'000**
Assets					
Cash and balances with the Central Bank of UAE	1,306,208	67,540	-	-	1,373,748
Due from banks and financial institutions	2,059,676	720,568	361,047	447,983	3,589,274
Investments in Islamic financing instruments	9,867,577	436,777	-	-	10,304,354
Investments in Islamic sukuk	572,632	1,143,650	-	-	1,716,282
Other assets	129,540	13,151	1,554	142	144,387
	13,935,633	2,381,686	362,601	448,125	17,128,045
Liabilities					
Customers' deposits	13,006,228	262,858	378,386	11,922	13,659,394
Due to banks and financial institutions	1,183,492	602,679	2,881	101	1,789,153
Other liabilities	276,573	15,891	17,495	6	309,965
	14,466,293	881,428	398,762	12,029	15,758,512
Net on-balance sheet foreign currency exposure	**(530,660)**	**1,500,258**	**(36,161)**	**436,096**	**1,369,533**

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

25 Risk management(continued)

25.3 Market risk(continued)

(c) Foreign currency risk (continued)

At 31 December 2011	AED AED'000	US$ AED'000	EUR AED'000	Others AED'000	Total AED'000
Assets					
Cash and balances with the Central Bank of UAE	480,989	354,208	-	-	835,197
Due from banks and financial institutions	511,567	309,456	1,949,360	204,208	2,974,591
Investments in Islamic financing instruments	10,137,270	503,700	-	-	10,640,970
Investments in Islamic sukuk	491,326	817,529	-	-	1,308,855
Other assets	186,426	116,461	2,613	2	305,502
	11,807,578	2,101,354	1,951,973	204,210	16,065,115
Liabilities					
Customers' deposits	8,257,182	495,865	2,731,603	83,309	11,567,959
Due to banks and financial institutions	553,982	819,009	1,419,472	119,828	2,912,291
Other liabilities	384,402	17,591	27,807	24	429,824
	9,195,566	1,332,465	4,178,882	203,161	14,910,074
Net on-balance sheet foreign currency exposure	**2,612,012**	**768,889**	**(2,226,909)**	**1,049**	**1,155,041**

At 31 December 2012, the net on-balance sheet foreign currency exposure in "others" is arising on account of balance due from banks of GBP 74 million which is equivalent to AED 439 million. The Bank has taken contracts to sell currency equivalent to GBP 73 million (equivalent to AED 432 million) to manage the net open exposure in GBP (refer note 13 (i)).

The impact of an 1% increase/decrease in the foreign exchange rates of the Bank's net on-balance sheet items is AED 4million (2011: AED 22million) on the Bank's equity at 31 December 2012 and income statement for the year ended 31 December 2012. The analysis is based on the assumptions that all other factors will remain constant.

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

25 Risk management(continued)

25.3 Market risk(continued)

(c) Price risk

The Bank is exposed to price risk arising from publicly traded investments in Islamic sukuk classified as Available-for-sale and Held-for-trading in the financial statements.

A 5% increase/decrease in the prices of these investments will have an impact of AED 9.1 million on the Bank's equity and income statement as at and for the year ended 31 December 2012 (2011: AED 4.1 million)relating to held-for-trading portfolio and an impact of AED 43 on the Bank's equity as at 31 December 2012 (2011: AED 27.7 million) relating to Available-for-sale portfolio. The analysis is based on the assumptions that all other variables will remain constant.

25.4 Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

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

25 Risk management(continued)

25.4 Fair value hierarchy(continued)

The financial instruments measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2012			
Financial assets			
Investment in Islamic sukuk			
- Classified as AFS	859,632	-	-
- Classified as Held for Trading	183,355	-	-
	1,042,987	-	-
Financial liabilities			
Promise to buy or sell currency	-	1,236	-
As at 31 December 2011			
Financial assets			
Investment in Islamic sukuk			
- Classified as AFS	554,221	-	-
- Classified as Held for Trading	81,206	-	-
	635,427	-	-
Financial liabilities			
Promise to buy or sell currency	-	85,357	-
Islamic profit rate swaps	-	3,572	-
	-	88,929	-

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

25 Risk management(continued)

25.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes including inadequate or failed processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development of employees for operational risk awareness;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Bank's operational risk standards is supported by a programme of periodic reviews undertaken by Internal Audit and a dedicated Operational Risk Team. The results of their reviews are discussed with the management of the business unit to which they relate and senior management of the Bank.

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

25 Risk management(continued)

25.6 Capital management

The Bank manages its' capital considering both regulatory and economic capital. The Bank calculates its risk asset ratio in accordance with requirements and guidelines established by the Central Bank of the UAE prescribing the ratio of total capital to total risk-weighted assets which is currently set at a minimum of 12% (2011: 12%). This is also in line with the assessment of capital adequacy ratio in accordance with the Basel I Accord and is analysed as follows:

	2012 AED'000	2011 AED'000
Tier I capital		
Share capital	3,157,895	3,157,895
Legal reserve	56,008	51,093
Accumulated losses	(1,257,710)	(1,301,947)
	1,956,193	1,907,041
Tier II capital		
Subordinated term investment	616,737	770,921
Asset revaluation reserves	1,669	1,759
	618,406	772,680
Deductions:		
Investments in other equity investments (refer note 9)	(26,530)	(21,530)
Total capital base	2,548,069	2,658,191
Risk weighted assets		
On balance sheet	12,682,327	11,841,081
Off balance sheet	1,198,139	1,036,818
Total risk weighted assets	13,880,466	12,877,899
Risk asset ratio on total capital base (%)	18.36%	20.64%
Risk asset ratio on tier I capital base (%)	14.09%	14.80%

Subordinated term investment represents deposit received from the UAE Federal Government, Ministry of Finance and classified as Customers' deposits in the statement of financial position (refer note 11). Deposit has been reduced by 20% in computing Tier II capital in current year in accordance with the requirements and guidelines established by the Central Bank of UAE.

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

25 Capital structure and capital adequacy as per Basel II requirement

The Bank is required to report capital resources and risk-weighted assets under the Basel II Pillar 3 framework, as shown in the following table.

	2012 AED'000	2011 AED'000
Tier I Capital		
Share capital	3,157,895	3,157,895
Legal reserves	56,008	51,093
Accumulated losses	(1,257,710)	(1,301,947)
	1,956,193	1,907,041
Tier II Capital		
Subordinated term investment	616,737	770,921
Collective impairment provision	162,314	177,062
Asset revaluation reserve	1,669	1,759
	780,720	949,742
Deductions from Tier I& Tier II Capital		
Investment in other equity investments (refer note 9)	(26,530)	(21,530)
Total regulatory capital	2,710,383	2,835,253
Risk weighted assets		
Credit risk	12,985,097	13,876,573
Market risk	59,618	107,004
Operation risk	828,131	748,532
Risk weighted assets	13,872,846	14,732,109
Capital adequacy ratio on regulatory capital	19.54%	19.25%
Risk asset ratio on Tier I capital	14.10%	12.94%

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

25 Capital structure and capital adequacy as per Basel II requirement(continued)

Asset classes in 2012	On balance sheet gross outstanding	Off balance sheet net exposure after credit conversion factors (CCF)	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk weighted assets
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	1,557,212	-	1,557,212	-	1,557,212	-
Claims on non-central government public sector entities	957,218	-	957,218	-	957,218	9,173
Claims on banks	3,477,735	17,872	3,495,607	-	3,495,607	1,190,457
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	7,467,235	1,218,076	8,420,169	(533,230)	7,886,939	8,169,778
Claims included in the regulatory retail portfolio	1,269,516	-	1,269,516	(54,339)	1,215,177	911,887
Claims secured by residential property	1,308,347	13,807	1,322,155	-	1,322,155	655,817
Claims secured by commercial real estate	626,013	-	626,013	-	626,013	626,013
Past due financing	1,681,713	-	229,441	-	229,441	235,689
Other assets	1,470,159	-	1,470,159	-	1,470,159	1,186,283
	19,815,148	**1,249,755**	**19,347,490**	**(587,569)**	**18,759,921**	**12,985,097**

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

25 Capital structure and capital adequacy as per Basel II requirement (continued)

Asset classes in 2011	On balance sheet gross outstanding AED'000	Off balance sheet net exposure after credit conversion factors (CCF) AED'000	Credit risk mitigation (CRM) Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	Risk weighted assets AED'000
Claims on sovereigns	963,756	-	963,756	-	963,756	-
Claims on non-central government public sector entities	1,116,626	-	1,116,626	-	1,116,626	63,499
Claims on banks	2,747,590	37,872	2,785,462		2,785,462	1,071,338
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	6,702,866	1,147,910	7,413,432	(345,586)	7,067,846	7,408,997
Claims included in the regulatory retail portfolio	1,108,484	-	1,108,484	-	1,108,484	831,363
Claims secured by residential property	1,715,740	21,139	1,736,879	-	1,736,879	1,736,879
Claims secured by commercial real estate	994,246	-	994,246	-	994,246	994,246
Past due financing	1,823,013	-	622,041	-	622,041	622,041
Other assets	1,239,316	-	1,239,316	-	1,239,316	1,148,210
	18,411,637	**1,206,921**	**17,980,242**	**(345,586)**	**17,634,656**	**13,876,573**

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

25 Capital structure and capital adequacy as per Basel II requirement
(continued)

Gross exposures and credit risk mitigation:

	2012		2011	
	Exposure AED'000	**Risk weighted assets AED'000**	Exposure AED'000	Risk weighted assets AED'000
Gross exposure prior to credit risk mitigation	**19,347,490**	**12,985,097**	**17,980,242**	**13,876,573**
Less: eligible financial collateral	**(587,569)**	**(587,569)**	**(345,586)**	**(345,586)**
Net exposure after CRM	**18,759,921**	**12,397,528**	**17,634,656**	**13,530,987**

Capital requirement for market risk under standardised approach as at 31 December 2012:

	2012		2011	
	Risk weighted assets AED'000	**Capital charge AED'000**	Risk weighted assets AED'000	Capital charge AED'000
Profit rate risk	**57,553**	**6,909**	**21,331**	**2,561**
Foreign exchange risk	**2,065**	**248**	**85,673**	**10,285**
	59,618	**7,157**	**107,004**	**12,846**

Capital charge for year ended 31 December 2012 has been calculated at 12% (2011: 12%).