SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

DIRECTORS' REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

SHARJAH ISLAMIC BANK

Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of SHARJAH ISLAMIC BANK ("the Bank") and its subsidiaries ("the Group") for the year ended 31st December 2012.

Financial Highlights

The Group has reported a net profit of AED 272.0 million for year ended 31st December 2012 compared to AED 251.1 million for the corresponding prior year, an increase of 8.3%.

Compared to December 2011, total assets increased by AED 583.1 million to reach AED 18.3 billion, an increase of 3.3%, financing receivables and Ijarah receivable increased by 3.1% (AED 321.9 million) to reach AED 10.7 billion and customer deposit increased by 9% (AED 935.7 million) to reach AED 11.3 billion.

The Directors propose to the Shareholders a cash dividend of 6% of the par value of share (AED 0.06 per share) amounting to AED 145.5 million *(compared to cash dividend of AED 145.5 million AED 0.06 per share on 2011).*

The Directors propose the following appropriations for 2012:-

	AED million
1) Proposed cash dividend	**145.5**
2) Zakat	**51.1**
3) Proposed Directors' fees	**2.4**
Total	**199.0**

After carrying forward the retained earnings from last year and the above proposed appropriations, total shareholders' funds will amount to AED 4.3 billion.

Directors:-

H.H. Shaikh Sultan Bin Mohammed Bin Sultan Al Qassimi	Chairman
H.E. Abdul Rahman Mohammed Nasser Al Owais	Vice Chairman
Mr. Othman Mohammed Sharif Zaman	Member
Mr. Ahmed Ghanim Al Suwaidi	Member
Mr. Ali Bin Salim Al Mazrou	Member
Mr. Ahmed Mohamed Obaid Al Shamsi	Member
Mr. Jassar Dakhil Al Jassar	Member
Mr. Mohammad N. Al Fouzan	Member

Auditors:-

KPMG were appointed as auditors of SHARJAH ISLAMIC BANK for the year 2012 at the Annual General Meeting held on 12th March 2012.

KPMG expressed their willingness for their re-appointment for the year ending 31 December 2013.

On behalf of the board

Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman
17th January 2013

P O Box 3800
Level 32, Emirates Towers
Sheikh Zayed Road
Dubai
United Arab Emirates

Telephone +971 (4) 403 0300
Fax +971 (4) 330 1515
Website www.ae-kpmg.com

Independent Auditors' Report

The Shareholders
Sharjah Islamic Bank PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Sharjah Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income (comprising a consolidated statement of comprehensive income and a separate consolidated income statement), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Independent Auditors' Report (continued)

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law No. 8 of 1984 (as amended), Union Law No. 10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Bank; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2012, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG

Vijendra Nath Malhotra

Registration No. 48B

17 January 2013

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

(Currency: Thousands of U.A.E. Dirhams)

	Notes	2012	2011
Assets:			
Cash and balances with banks and financial institutions	6	1,783,237	1,770,432
International murabaha and wakalah with financial institutions	7	2,372,410	2,341,534
Financing receivables	8	2,778,882	2,370,688
Ijarah receivable	9	7,970,489	8,056,746
Investments securities	11	856,681	734,536
Investment properties	12	223,288	191,044
Properties held for sale	13	1,083,034	1,044,989
Other assets	14	394,381	408,198
Property and equipment	15	853,827	814,975
Total assets		18,316,229	17,733,142
Liabilities:			
Customers' deposits	16	11,334,541	10,398,853
Due to banks	17	470,190	900,972
Sukuk payable	18	1,464,457	1,463,062
Other liabilities	19	523,377	413,742
Zakat payable		79,766	150,355
Total liabilities		13,872,331	13,326,984
Shareholders' equity:			
Share capital	20	2,425,500	2,425,500
Legal reserve	23	1,328,226	1,327,617
Statutory reserve	23	89,008	89,008
Fair value reserve	23	(34,470)	(20,481)
Retained earnings		635,634	584,514
Total shareholders' equity:		4,443,898	4,406,158
Total liabilities and shareholders' equity		18,316,229	17,733,142

The consolidated financial statements were authorized for issue in accordance with a resolution of Directors on 17th January 2013 and signed on its behalf by:

Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman

Mohammed Ahmed Abdullah
Chief Executive Officer

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

The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(Currency: Thousands of U.A.E. Dirhams)

	Notes	2012	2011
Income from financing and leasing		695,234	731,066
Profit on sukuks		(70,715)	(49,112)
Fees, commission and other income	24	187,612	147,858
Total income		812,131	829,812
General and administrative expenses	25	(336,578)	(315,808)
Net operating income		475,553	514,004
Provisions - net of recoveries	26	(37,391)	(45,873)
Net profit before distribution to depositors		438,162	468,131
Distribution to depositors	27	(166,159)	(217,010)
Net profit for the year (Attributable to the shareholders of the Bank)		272,003	251,121
Basic and diluted earnings per share (U.A.E. Dirhams)	28	0.11	0.10

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

The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(Currency: Thousands of U.A.E. Dirhams)

	2012	2011
Net profit for the year	**272,003**	**251,121**
(Attributable to the shareholders of the Bank)		
Other comprehensive income		
Net change in fair value reserve	(35,191)	(7,157)
Total comprehensive income for the year		
(Attributable to the shareholders of the Bank)	**236,812**	**243,964**

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

The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(Currency: Thousands of U.A.E. Dirhams)

	2012	2011
Cash flows from operating activities:		
Net profit for the year	272,003	251,121
Adjustments:		
Depreciation	24,416	25,226
Amortization of sukuk issuance cost	1,395	1,496
Provision on customer receivables	45,808	36,345
Provision on subsidiaries	(8,447)	6,735
Provision for impairment on investment securities	441	1,763
Revaluation loss/gain on investment properties	(2,200)	1,869
Operating profit before changes in operating assets and liabilities	333,416	324,555
Changes in operating assets and liabilities:		
Change in reserve with Central Bank	(48,465)	(79,426)
Change in international murabaha and wakalah with financial institution	(139,250)	(65,814)
Change in financing receivables	(446,900)	(288,891)
Change in Ijarah receivable	79,155	(521,106)
Change in other assets	22,266	(54,156)
Change in customers' deposits	935,688	20,719
Change in due to banks	(430,782)	223,883
Zakat payable	(121,731)	(37,108)
Change in other liabilities	107,235	110,694
Net cash provided / (used in) by operating activities	290,632	(366,650)
Cash flows from investing activities:		
Acquisition of property and equipment	(63,269)	(19,326)
Acquisition in investment properties – net	(30,044)	(11,968)
Acquisition in properties held for sale – net	(38,045)	(28,314)
Change in investments securities - net	(157,778)	(273,660)
Net cash used in investing activities	(289,136)	(333,268)
Cash flows from financing activity:		
Proceeds from sukuk	-	635,735
Cash dividends	(145,530)	(133,402)
Net cash (used in) / provided by financing activity	(145,530)	502,333
Net (decrease) in cash and cash equivalents	(144,034)	(197,585)
Cash and cash equivalents, beginning of the year	3,099,539	3,297,124
Cash and cash equivalents, end of year (note 29)	2,955,505	3,099,539

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

The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(Currency: Thousands of U.A.E. Dirhams)

	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					
	Share capital	Legal reserves	Statutory reserves	Fair value reserve	Retained earnings	Total shareholders equity
As at 1 January 2011	2,425,500	1,327,617	89,008	(15,426)	521,166	4,347,865
fair value adjustment - IFRS - 9	-	-	-	2,102	(2,102)	-
As at 1 January 2011 (Restated)	2,425,500	1,327,617	89,008	(13,324)	519,064	4,347,865
Total comprehensive income for the year						
Profit for the year	-	-	-	-	251,121	251,121
Other comprehensive income						
Net change in fair value reserve	-	-	-	(7,157)	-	(7,157)
Total comprehensive income for the year	-	-	-	(7,157)	251,121	243,964
Transactions with owners recorded directly in equity						
Cash dividends paid	-	-	-	-	(133,402)	(133,402)
Zakat	-	-	-	-	(49,799)	(49,799)
Directors' remuneration	-	-	-	-	(2,470)	(2,470)
Total transactions with owners	-	-	-	-	(185,671)	(185,671)
As at 31 December 2011	2,425,500	1,327,617	89,008	(20,481)	584,514	4,406,158
As at 1 January 2012	2,425,500	1,327,617	89,008	(20,481)	584,514	4,406,158
Total comprehensive income for the year						
Profit for the year	-	-	-	-	272,003	272,003
Other comprehensive income						
Net change in fair value reserve	-	-	-	(35,191)	-	(35,191)
Total comprehensive income for the year	-	-	-	(35,191)	272,003	236,812
Transactions with owners recorded directly in equity						
Fair value adjustment IFRS 9	-	-	-	21,202	(21,202)	-
Cash dividends paid (note 21)	-	-	-	-	(145,530)	(145,530)
Transfer to legal reserve	-	609	-	-	(609)	-
Zakat	-	-	-	-	(51,142)	(51,142)
Directors' remuneration (note 22)	-	-	-	-	(2,400)	(2,400)
Total transactions with owners	-	609	-	21,202	(220,883)	(199,072)
As at 31 December 2012	2,425,500	1,328,226	89,008	(34,470)	635,634	4,443,898

In accordance with the Ministry of Economy & Commerce interpretation of Article 118 of Commercial Law No. 8 of 1984, Directors' remuneration has been treated as an appropriation from equity.

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 and 4.

1. Legal status and activities

SHARJAH ISLAMIC BANK ("the Bank") was incorporated in 1975 as a public joint stock company by an Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and its listed in Abu Dhabi stock securities. The Bank is engaged in banking activities, financing and investing activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulation of the Central Bank of UAE ("the CBUAE"), which are carried out through its 26 branches (2011: 25 branches) established in United Arab Emirates.

At the extraordinary shareholders' meeting held on 18th March 2001 a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Shari'a rules and principles. The entire process was completed on 30th June 2002 ("the transformation date"). As a result the Bank transformed its conventional banking products into Islamic banking products during the 6-month period ended 30th June 2002 after negotiation and agreement with its customers. Ijarah receivable

The consolidated financial statements of the Group comprise the Bank and its fully owned subsidiaries incorporated in United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Service (SIFS), Contact Marketing and ASAS Real Estate (all together referred to as "the Group", also refer note 3). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari'a compliant shares. Contact Marketing providing certain support services to the Bank. ASAS Real Estate is involved in the management of Bank's real estate portfolio.

The registered office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

2. Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all applicable laws concerning disclosure of material non public information, including International Financial Reporting Standards, the CBUAE (lead regulator), BASEL II Pillar 3 guidelines laid down by the CBUAE, Emirates Securities and Commodities Authority (ESCA) and Abu Dhabi Financial Market (ADX).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information (consolidated basis):

Materiality thresholds

Information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions and/or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down a materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

Internal controls

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalisation and review of accounting and financial disclosures. In addition the consolidated financial statements are subject to quarterly reviews and audit procedures by the Group's external auditors.

Frequency and medium of disclosure

Interim consolidated financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel II Pillar 3 and other guidelines from the CBUAE is made on an annual basis. Disclosures of material non public financial information are made by the Financial Control Department of the Group in coordination with Marketing Department through the following mediums:

- Sending reviewed quarterly and annual audited consolidated financial statements along with Directors' report to ADX and ESCA;
- Hosting quarterly and annual consolidated financial statements on the Group's website and
- Publication of annual audited consolidated financial statements in Arabic news papers after the approval in the Annual General Meeting (AGM).

3. Basis of preparation

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by International Accounting Standard Board ("IASB"), and comply with the guidance of the CBUAE, Islamic Shari'a principles and applicable requirements of the Federal laws relating to Islamic Banks.

The Group had adopted IFRS 9, financial instruments in 2010 in advance of its effective date. The Group had chosen 1 April 2010 as its date of initial application.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical basis except for the following that are measured at fair value:

i) financial assets at fair value through profit or loss (FVTPL);

ii) financial assets at fair value through other comprehensive income (FVTOCI); and

iii) investment properties.

c. Functional and reporting currency

These consolidated financial statements of the Group have been prepared in UAE Dirhams (AED), which is the Group's functional currency, rounded to the nearest thousand.

d. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. In particular these estimates and judgements relate to impairment losses on financing receivables, Ijarah receivable and amortised cost, valuation of financial asset FVTPL and FVTOCI, provisions for doubtful debts and slow moving inventories (refer note 30).

4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group's entities.

a. Basis of consolidation

i) Subsidiaries

Subsidiaries are the entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in note 34.

iii) Transactions eliminated on consolidation

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

iv) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing transaction. The consolidated financial special purpose entities are included in the Group's consolidated financial statement where the substance of the relationship is the Group controls the special purpose entity.

4. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments

i. Financial assets and liabilities

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

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates them as an investment that is not held for trading and are accordingly carried as at fair value through other comprehensive income (FVTOCI).

Financial assets measured at FVTPL are initially recognized and subsequently measured at fair value, with any gains or losses arising in re-measurement recognised in the consolidated statement of income. All transaction costs are charged to statement of income.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of income.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on instrument by instrument basis) to designate other investments under the classification of FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Financial assets measured at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income.

Dividends on these investments are recognised in the consolidated statement of income.

Financial assets measured at amortised costs

A financial asset shall be measured at amortised cost if both of the following conditions are met:

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

Financial assets measured at amortised costs are initially measured at fair value plus transaction costs. Subsequently, they are measured at amortised cost using the effective yield method less any impairment, with profit recognised on an effective yield basis in the consolidated statement of income.

Subsequent to the initial recognition, the Group is required to reclassify investments from amortised cost to FVTPL, if the objective of the business model changes so that the amortised cost criteria is no longer met.

Financing receivables

Financing receivables are non derivative financial assets with fixed or determinable payment that other than investment securities that are not held for trading. They arise when the Bank provides funds directly to a debtor with no intention of trading in the granted facilities. Financing receivables are initially measured at fair value and subsequently measured at their amortised cost. These are reported net of impairment provisions, if any, to reflect the estimated recoverable amounts. The financing receivables mainly comprise Murabaha and Qard Hasan.

Murabaha is an agreement for sale of commodities purchased by the Bank based on the promise of the customer to buy the commodities on a cost plus the agreed profit basis.

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

Ijarah receivable ("Ijarah")

A Lease is classified as a finance lease, when the Bank transfers substantially all the risks and rewards incident to an ownership of the Ijarah receivable to the lessee. Ijarah receivable represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide that the lessor undertakes to transfer the leased property to the lessee upon receiving the final rental payment or the agreed price. Ijarah receivable are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

4. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

Impairment

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Movement in provisions is recognised in the consolidated statement of income. Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

ii. Recognition of financial instruments

Investment are recognised on the trade date which is the date on which the Group commits to purchase or sell the securities. Financing receivables and Ijarah receivable ("Ijarah") are recognised when cash is advanced to the borrowers.

Financial liabilities are recognised on the date when the Bank becomes a party to the contractual provisions of the instrument.

iii. Derecognition of financial instruments

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expire, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets are transferred to other party.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iv. Fair value measurement principles

Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is based on quoted market price at the reporting date without any deduction for transaction costs. If quoted market price is not available, the fair value of the instrument is estimated using pricing models or appropriate discounted cash flow techniques. Investments in other unlisted investment funds are recorded at the net asset value per share as reported by the managers of such fund.

v. Measurement of financial instruments

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to the initial recognition, financial assets at fair value through profit or loss and fair value at other comprehensive income are stated at their fair value. All other financial instruments are measured at amortised cost less impairment loss, if any.

c. Investment properties

Investment properties are stated at fair value determined regularly by an independent valuer. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the consolidated statement of income. Further the management assessed the fair values of investment properties internally to reflect the current market conditions.

Leases of assets under which the lessor effectively retains all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

d. Properties held-for-sale

Properties held for sale are measured at a lower of cost and net realisable value (NRV) less impairment loss, if any.

NRV is the estimated selling price, less the estimated selling and other expenses necessary to complete the sale.

e. Revenue recognition

Murabaha

The profit on Murabaha is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on an effective yield method on the balance outstanding.

4. Summary of significant accounting policies (continued)

e. Revenue recognition (continued)

Ijarah receivable ("Ijarah")

Income from Ijarah receivable is recognised on an accrual basis on an effective yield method.

Fees and commissions

Fees and commissions income relating to underwriting and financing activities is recognised as the related service is performed.

Rental income

Rental income from investment properties are recognised in the consolidated statement of income on a straight-line basis over the term of the leases.

Dividend income

Dividend income is recognised in the consolidated statement of income when the Group's right to receive income is established. Usually this is the ex-dividend date for equity securities.

Other income

Other income includes revenue from provision of accommodation, food, beverages and brokerage commission relating to the services provided by the subsidiaries.

Revenue from provision of accommodation, food, beverages and other services is recognised on an accrual basis as the services are rendered.

Commissions are accounted for on the completion of the brokerage deal.

f. Zakat

Zakat is computed in accordance with the Bank's Articles of Association and is approved by the Bank's Fatwa and Shari'a Supervisory Board. Zakat is calculated at 2.577% (to account for the difference between the Gregorian and Lunar calendar) on the Bank's reserves, retained earnings and provision for staff end of service benefits at the year end and it is the Bank's shareholders responsibility to pay the Zakat on their respective share in the Bank's capital and the distributed cash dividends.

g. Translation of foreign currencies

The accounting records of the Group are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirhams at the foreign exchange ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

h. Other assets

Other assets include profit and other receivables which are stated at amortised cost net of provision for impairment, if any.

i. Other liabilities

These include financial liabilities and other payables. Financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective yield method.

Other payables are stated at cost and are recognised for amounts to be paid in the future for goods or services received, whether or not billed.

j. Provisions

A provision is recognised if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4. Summary of significant accounting policies (continued):

k. Distribution of profit between holders of unrestricted investment deposit and the shareholders

The Bank is complied with Shari'a rules as set out below:

Net gains on all items of income and expenses at the end of each month are the net profit distributable between the shareholders and the holders of unrestricted investment deposits.

- The share of the holders of unrestricted investment deposits is calculated from the net profit on a daily basis after deducting the Bank's agreed upon and declared Mudaraba percentage.
- Due to the amalgamation of unrestricted investment funds with the Bank's funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

l. Provision for end-of-service benefits

Provision is made for end-of-service benefits payable to expatriate employees in accordance with the U.A.E. labour laws, calculated on the basis of the individual's period of service at the reporting date and included under "Other liabilities".

With respect to its UAE national employees, the Bank makes contributions to the pension fund established by the General Pension and Social Security Authority as percentage of the employees' salaries. The Bank's obligation is limited to these contributions, which are recognised in the consolidated statement of income.

m. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Except for freehold land, property and equipment are depreciated on a straight-line basis over their estimated useful lives, using annual rates of 5% to 33% depending on the type of asset involved.

Property that is being constructed or developed for future use as investment property is classified as property and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

n. Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with the CBUAE (excluding statutory reserves), current accounts with other banks and financial institutions, international murabaha and wakalah arrangements with residual maturity up to three months from the reporting date.

o. Due to Banks

Amounts due to banks are initially recognised at the fair value of the consideration received, and are subsequently measured at amortised cost using the effective yield method.

p. Customers' deposits

The Bank accepts customer savings and time deposit on a Mudaraba basis, where as current and other similar in nature deposits are accepted on a Qard Hassan (profit free loan) basis.

q. Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net a basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by under IFRS.

r. Fiduciary activities

The Bank is involved in fiduciary activities in its capacity as a portfolio agent that results in the holding or placing of assets on behalf of customers in an equity portfolio. These assets and income arising thereon from the equity portfolio are excluded from these consolidated financial statements, as they are not assets of the Bank.

s. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary share. Basic EPS is calculated by dividing the profit or losses attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

t. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Bank has determined the Bank's management Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm´s length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

4. Summary of significant accounting policies (continued):

u. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Standards	Description	Effective
IAS 1 (Amendment)	Presentation of Financial Statements	(effective 1 July 2012)
IFRS 7 (Amendment)	Financial Instruments: Disclosures	(effective 1 January 2013)
IFRS 10	Consolidated Financial Statements	(effective 1 January 2013)
IFRS 11	Joint Arrangements	(effective 1 January 2013)
IFRS 12	Disclosure of Interest in other entities	(effective 1 January 2013)
IFRS 13	Fair Value Measurement	(effective 1 January 2013)
IAS 19 (Amendment)	Employee Benefits	(effective 1 January 2013)
IAS 27 (Amendment)	Separate Financial Statements	(effective 1 January 2013)
IAS 28 (Amendment)	Investments in Associates and joint ventures	(effective 1 January 2013)
IAS 32 (Amendment)	Financial Instruments : Presentation	(effective 1 January 2014)
IFRS 9	Financial Instruments	(effective 1 January 2015)

The standards which might have material impact on the Group financial statements in the period of initial application are as follows :

The Group is already following IFRS 9 (2009) which sets out guidelines for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a limited pervasive impact on the Group's consolidated financial statements

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. It is not expected to have a significant impact on the Group's accounting for investees.

IFRS 11 is not expected to have any impact on the Group because the Group does not have interests in joint ventures.

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It is not expected to have a significant impact on the Group as the Group does not have any joint arrangements, associates or unconsolidated structured entities.

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The group is currently reviewing its methodologies for determining fair values. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non - financial assets/ liabilities and disclosures on fair value measurements that are categorised in Level 3.

5. Risk management

i. Risk management framework

The Board of Directors ('the Board") is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by three Board Committees and five Management Committees. The briefing about the role and function of each committee is as follows:

Executive Committee (EC)

EC acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four members.

Audit Committee (AC)

The AC consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

Risk Management Committee (RMC)

The RMC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Bank and the control processes with respect to such risks;
- Reviewing the risk profile of the Bank;
- Managing the Risk Management Compliance and control activities of the Bank;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the bank is exposed.

Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing and administrative processes. In addition, the MC is also responsible to liaise with all other units/divisions across the Group.

Investment Committee (IC)

The purpose of the Investments Committee, is to review the quality of the Bank's Investment portfolio on behalf of the Board of Directors, trends affecting the portfolio, the administration of investment related Polices, as well as the approval of Investment proposals, including Sukuks and Syndicate Finance within the approval limit set by the BOD.

IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritisation and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks;
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans.

5. Risk management (continued):

i. Risk management framework (continued)

Asset and Liability Committee (ALCO)

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors. The roles of ALCO include the following:

- Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:
  - Liquidity risk – being the risk from the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
  - Market risk – being the following risks;
    - The risk to earnings from adverse movements in profit rates, exchange rates and market volatility and;
    - The risk from changes in the value of portfolio of financial instruments;
  - Statement of financial position risk - being the following risks:;
    - The risk to earnings from changes in profit rates and market volatility in retail and wholesale rates;
    - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in profit rates and market volatility; and
    - The risk from material changes in global and domestic economic conditions generally.

Credit Committee (CC)

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

Human Resource Committee (HRC)

HRC manages the resources, performance and requirement of individuals required by Group on time to time basis.

- Enterprise risk management group (ERMG)

In order to manage the credit, market, operational and IT risks an ERMD is in place. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

- Internal audit

The role of the internal audit department within the Group is to provide independent and objective assurance that the process for indentifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides a independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. It also provides consulting services which are advisory in nature, and are generally performed at the specific request of the AC.

It is led by the head of internal audit who reports to the AC of the Board of Directors, with administrative reporting to the Chief Executive Officer (CEO).

To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

5. Risk management (continued):

i. Risk management framework (continued)

- Internal control

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's management and external regulatory bodies. The functions and responsibilities of the Internal control department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

- Compliance

The overall mission and role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues including "KYC" and "AML", and plans for their resolution;
- contribute to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

ii. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:

Credit risk;

Liquidity risk;

Market risk; and

Operational risk.

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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, products and services offered.

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

a. Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's financing receivables, Ijarah receivable , Wakalah arrangements with financial institutions and in debt securities.

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Group credit processes are undertaken by internal audit division.

5. Risk management (continued):

ii. Financial risk management (continued):

a. Credit risk (continued):

Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration of credit risk by industrial sector for financing receivables and Ijarah receivable are presented in notes 8b and 9b.

Concentration of credit risk by geographical distribution of due from banks and wakalah arrangements with financial institutions is set out in note 6 and 7.

The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Collaterals

The Group holds collateral against financing receivable and Ijarah receivable (*Ijarah*) in the form of cash margins, personal guarantees, and mortgages over properties or other securities over assets. Estimates of credit risk mitigation relating to financing receivables and Ijarah receivable are based on the value of collateral assessed at the time of financing, and are subsequently monitored on a periodic basis. A quantification of the extent to which collateral and other credit enhancements mitigate credit risk is shown below:

	Against neither past due nor impaired		**Against past due but not impaired**		**Against individually impaired**	
	2012	2011	**2012**	2011	**2012**	2011
Mortgage of property	**5,156,382**	5,041,243	**2,359,709**	1,919,762	**487,157**	253,230
Listed shares	**63,764**	140,216	**128,765**	72,379	**-**	-
Cash lien and others	**96,069**	74,769	**-**	-	**-**	-
Carrying amount	**5,316,215**	**5,256,228**	**2,488,474**	1,992,141	**487,157**	253,230

Impairment of financial Assets

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted. The Bank establishes an allowance for impairment losses that represents its estimate for incurring losses in its financing portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures after considering guidance provided by Central Bank, and a collective financing receivable and ijarah loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5. Risk management (continued):

ii. Financial risk management (continued):

a. Credit risk (continued):

Financial assets with renegotiated terms

Financial assets with renegotiated terms are those that have been restructured due to deterioration in the borrower's financial position and where the Group has made concession that it would not otherwise consider.

	Bank and financial institutions		Investment securities		Financing receivable and Ijarah receivable		Loans and advances	
	2012	2011	2012	2011	2012	2011	2012	2011
Carrying amount	**2,378,806**	2,362,688	**615,486**	456,920	10,749,371	10,427,434	-	-
Individually impaired								
Substandard	-	-	-	-	**550,470**	276,745	-	26
Doubtful	-	-	-	-	**110,780**	118,930	**9,890**	9,414
Loss	-	-	-	-	6,262	5,824	223,106	222,288
Gross amount	-	-	-	-	**667,512**	401,499	232,996	231,728
Profit in suspense	-	-	-	-	**(7,094)**	(7,907)	**(75,843)**	(74,380)
Specific allowance for impairment	-	-	-	-	**(176,828)**	(132,709)	**(157,147)**	(157,342)
Total	-	-	-	-	483,590	260,883	6	6
Neither past due nor impaired	**2,378,806**	2,362,688	**615,486**	456,920	**10,337,234**	10,235,804	-	-
Collective allowance for impairment	-	-	-	-	**(71,453)**	(69,253)	**(6)**	(6)
Carrying amount	**2,378,806**	**2,362,688**	**615,486**	**456,920**	10,749,371	10,427,434	-	-
Includes accounts with renegotiated terms	-	-	**27,811**	64,123	365,312	527,916	-	-
Past due but not impaired more than 90 days:	-	-	-	-	**495,491**	523,141	-	-

Bank and financial institutions exclude cash in hand and cash reserve deposits with the CBUAE.

The Group's exposure to credit risk relating to off balances sheet commitments are disclosed in note 32. These are neither past due nor impaired

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit limits monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group risk.

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

The Group's approach to managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

All liquidity policies and procedures are subject to review and approval by ALCO.

5. Risk management (continued):

ii. Financial risk management (continued):

b. Liquidity risk (continued):

Exposure to liquidity risk

The Group's contractual maturities of financial instruments are summarised in the table below based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained.

31 December 2012	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Cash and balances with banks and financial institutions	953,737	829,500	-	-	1,783,237
International murabaha and wakalah with financial institutions	1,880,213	492,197	-	-	2,372,410
Financing receivables	684,710	283,885	1,770,123	40,164	2,778,882
Ijarah receivable	536,249	259,090	2,292,268	4,882,882	7,970,489
Investments securities	474,636	35,613	298,683	47,749	856,681
	4,529,545	1,900,285	4,361,074	4,970,795	15,761,699
Liabilities and equity					
Customers' deposits	8,384,525	2,950,016	-	-	11,334,541
Due to banks	470,190	-	-	-	470,190
Sukuk payable	-	-	1,464,457	-	1,464,457
Other liabilities and zakat	445,418	28,624	129,101	-	603,143
	9,300,133	2,978,640	1,593,558	-	13,872,331

31 December 2011	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Cash and balances with banks and financial institutions	1,153,556	616,867	9	-	1,770,432
International murabaha and wakalah with financial institutions	1,988,586	352,948	-	-	2,341,534
Financing receivables	651,251	131,992	1,572,141	15,304	2,370,688
Ijarah receivable	376,846	164,771	2,924,280	4,590,849	8,056,746
Investments securities	410,058	91,566	232,912	-	734,536
	4,580,297	1,358,144	4,729,342	4,606,153	15,273,936
Liabilities and equity					
Customers' deposits	8,711,235	1,686,695	923	-	10,398,853
Due to banks	900,972	-	-	-	900,972
Sukuk payable	-	-	1,463,062	-	1,463,062
Other liabilities and zakat	366,354	-	197,743	-	564,097
	9,978,561	1,686,695	1,661,728	-	13,326,984

Cash and balances with banks and financial institutions include mandatory deposits with the CBUAE (refer note 29). The Group's expected cash flows may vary from this analysis, for example, demand deposits from customers are expected to maintain a stable or increasing balance.

5. Risk management (continued)

ii. Financial risk management (continued)

c. Market risks

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

Profit rate risk

Profit rate or pricing risk, comprising market and valuation risks, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the ALCO.

The Bank is not significantly exposed to risk in terms of the re-pricing of its liabilities since primarily in accordance with Islamic Shari'a, the Bank does not provide a contractual rate of return to its depositors.

Currency risk

Currency risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Bank's open position and current and expected exchange rate movements. The Bank does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The Board of Directors has set limits on positions by currency. Positions are closely monitored by ALCO to ensure positions are maintained within established limits.

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net position	
Currency	**2012**	**2011**
US dollar	**(243,930)**	(432,935)
Sterling pound	**75**	165
Euro	**38**	1,837
Bahrani Dinar	**7,371**	7,418
Qatari Riyal	**(11)**	349
Saudi Riyals	**755**	151
Kuwaiti Dinar	**37,355**	32,558
Omani Riyal	**15,944**	26,540

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

Equity price risk

Equity price risk arises from the change in fair value of equity instruments. The Group manages this risk through diversification of investment in terms of geographical distribution and industry concentration.

The table summarises the impact of change in equity prices by ±10% on net profit and other comprehensive income of the Group.

	2012		2011	
	Effect on net profit	Effect on other comprehensive income	Effect on net profit	Effect on other comprehensive income
Financial assets at fair value through profit or loss	**9,766**		7,438	-
Financial assets at fair value through other comprehensive income		**14,323**	-	20,249

5. Risk management (continued):

ii. Financial risk management (continued)

d. Operational risks

Operational risk is the risk of a direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

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

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk Management Committee identify and manage operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

iii. Capital management

Regulatory capital

The Group's lead regulator, the CBUAE, sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CBUAE.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group's regulatory capital adequacy ratio is set by the CBUAE. The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year. The Group has adopted a standardized approach for Credit risk and Market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB as per time line set by CBUAE.

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as FVTPL, FVTOCI and collective impairment provision.

The following limits have been applied for Tier 2 capital:

Total tier 2 capital shall not exceed 67% of tier 1 capital

Subordinated liabilities shall not exceed 50% of total tier 1 capital

Collective impairment provision shall not exceed 1.25% of total risk weighted assets.

5. Risk management (continued)

iii. Capital management (continued)

The table below summarises the composition of regulatory capital of the Group:

	Basel II	
	2012	2011
Tier 1 capital		
Ordinary share capital	2,425,500	2,425,500
Retained earnings	662,093	616,925
Statutory and special reserve	89,008	89,008
Legal Reserve	1,293,755	1,307,136
Total tier 1 capital base	4,470,356	4,438,569
Tier 2 capital		
Fair value reserve	-	-
Collective impairment provisions	71,459	69,259
Total tier 2 capital base	71,459	69,259
Total capital base (a)	4,541,815	4,507,828
Risk weighted assets:		
On balance sheet	18,338,865	17,798,726
Off balance sheet	979,667	801,159
Credit risk	11,758,565	11,082,940
Market risk	552,277	359,367
Operational risk	772,697	745,692
Risk weighted assets	13,083,539	12,187,999
Tier 1 ratio	34.17%	36.42%
Capital adequacy ratio	34.71%	36.99%

Risk weighted capital requirement

The Group has adopted the standardized approach for credit risk, market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operation risk are given below:

Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the CBUAE Basel II Capital Adequacy Framework. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable ECAIs, except that, for all GCC sovereigns a 0% weight has been applied.

Claims on public sector entities (PSEs)

Domestic currency claims on GCC non commercial PSE were treated as claims on GGC sovereign if their central bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favorable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non commercial PSE were treated one grade less favorable than its sovereign. Claims on commercial PSE were treated as claims on corporate.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with the banks credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

5. Risk management (continued):

iii. Capital management (continued)

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting. No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate portfolio

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAIs. Risk weightings for unrated corporate claims are assigned at 100%.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if it meets the criteria mentioned in the CBUAE BASEL-II guidelines.

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property

100% risk weight was applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows :

150% risk weight when specific provisions are less than 20% of the outstanding amount of the financing; and

100% risk weight when specific provisions are greater than 20% of the outstanding amount of the financing.

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%.

The risk weighted at 100% for other exposures.

5. **Risk management (continued):**

iii. Capital management (continued)

Risk weighted assets as per standardized approach is set out below:

2012

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	3,633,861	87,565	3,721,426	(25)	3,721,401	-
Claims on non-central government public sector entities (PSES)	2,056,203	75	2,056,278	-	2,056,278	38,720
Claims on banks	2,426,693	11,447	2,438,140	-	2,438,140	1,079,977
Claims on corporate	2,446,946	830,527	3,277,473	(13,599)	3,263,874	3,263,874
Claims included in the regulatory retail portfolio	3,364,288	50,002	3,414,290	(17,150)	3,397,140	3,251,002
Claims secured by residential property	34,189	-	34,189	-	34,189	29,216
Claims secured by commercial real estate	101,737	-	101,737	-	101,737	101,737
High risk categories	18,825	-	18,825	-	18,825	28,237
Past due financing receivables	974,814	51	974,865	(35,298)	939,567	1,329,400
Other assets	3,281,309	-	3,281,309	-	3,281,309	2,636,402
Total claims	18,338,865	979,667	19,318,532	(66,072)	19,252,460	11,758,565
Total credit risk						11,758,565

2011

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	3,452,923	99,968	3,552,891	(25)	3,552,866	-
Claims on non-central government public sector entities (PSES)	1,969,742	1,014	1,970,756	-	1,970,756	19,100
Claims on banks	2,462,659	9,794	2,472,453	-	2,472,453	879,117
Claims on corporate	1,911,297	641,674	2,552,971	(72,388)	2,480,583	2,480,583
Claims included in the regulatory retail portfolio	2,700,648	48,449	2,749,097	(150,653)	2,598,444	2,523,636
Claims secured by residential property	47,885	-	47,885	-	47,885	42,567
Claims secured by commercial real estate	1,346,391	-	1,346,391	-	1,346,391	1,346,391
High risk categories	18,825	-	18,825	-	18,825	28,238
Past due financing receivables	783,994	260	784,254	-	784,254	1,161,587
Other assets	3,104,362	-	3,104,362	-	3,104,362	2,601,721
Total claims	17,798,726	801,159	18,599,885	(223,066)	18,376,819	11,082,940
Total credit risk						11,082,940

5. **Risk management (continued):**

iii. Capital management (continued)

Risk weights for market risk

Capital requirement for market risk is calculated using the standardized approach. The capital requirement for market risk is analysed into capital requirement for profit rate risk, equity risk, foreign exchange risk.

A summary of the capital requirement for market risk under standardized approach under Basel II is set out below

	2012	2011
Equity position risk	**525,156**	357,568
Foreign currency risk	**27,121**	1,799
	552,277	**359,367**

Risk weight for operational risk

The capital requirement for operation risk is calculated using the basic indicator approach. The total capital requirement is calculated as 15% of last three years average income which amounts to AED 772.7 thousand *(2011: AED 745.7 thousand)*

6. **Cash and balances with banks and financial institutions:**

Cash	**251,026**	234,514
Deposits with CBUAE	**1,525,815**	1,514,764
Due from banks	**6,396**	21,154
	1,783,237	**1,770,432**

Due from banks - by geographical distribution

GCC Countries	**1,831**	1,075
Europe	**3,530**	6,186
North America	**-**	1,721
Others	**1,035**	12,172
	6,396	**21,154**

7. **International murabaha and wakalah with financial institutions:**

International murabaha and wakalah represent transactions with local and international banks with residual maturity less than one year from the reporting date.

Wakala arrangements	**2,297,194**	2,341,534
International Murabaha	**75,216**	-
	2,372,410	**2,341,534**

International murabaha and wakalah with financial institutions by geographical distribution:

Within UAE	**1,826,969**	1,335,072
GCC Countries	**471,981**	951,050
Others	**73,460**	55,412
	2,372,410	**2,341,534**

8. **Financing receivables :**

Financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk. Financing receivables comprise the following:

a) By type

Vehicle murabaha	**371,414**	358,750
Goods murabaha	**1,439,866**	1,195,225
Real estate murabaha	**215,293**	227,213
Other murabaha	**609,947**	450,065
Qard Hasan	**282,729**	250,133
Visa receivables	**35,733**	36,017
Istisna	**3,593**	7,039
Provision for impaired financing receivables	**(179,693)**	(153,754)
	2,778,882	**2,370,688**

8. Financing receivables (continued):

b) By sector

	2012	2011
Government departments and authorities	117,295	99,992
Construction	59,095	111,016
Manufacturing	251,180	120,120
Transportation	58,748	66,333
Real Estate	353	27,128
Trading	465,055	342,758
Other Services	181,188	162,800
Personal	1,723,791	1,482,759
Others	101,870	111,536
Provision for impaired financing receivables	(179,693)	(153,754)
	2,778,882	2,370,688

c) Impairment provision for financing receivables

Balance, beginning of the year	153,754	135,539
Written off during the year	(656)	(761)
Additional provision for the year	36,094	36,400
Recoveries and write-backs during the year	(9,499)	(17,424)
	179,693	153,754

9. Ijarah receivable:

Ijarah receivable are finance leases, which comprise the following:

a) Net investment

Gross investment	8,039,077	8,104,954
Provision for impaired ijarah receivable	(68,588)	(48,208)
	7,970,489	8,056,746

b) By sector

Government departments and authorities	3,944,431	3,759,378
Construction	1,513,776	1,533,797
Manufacturing	124,007	142,842
Transportation	154,327	115,301
Real Estate	255,591	288,038
Trading	164,126	220,154
Other Services	384,146	537,347
Personal	1,498,673	1,508,097
Provision for impaired ijarah receivable	(68,588)	(48,208)
	7,970,489	8,056,746

c) Impairment provision for ijarah receivable

Balance, beginning of the year	48,208	25,860
Additional provision for the year	25,380	23,559
Recoveries and write-backs during the year	(5,000)	(1,211)
	68,588	48,208

d) The net investment in finance leases comprises:

Less than one year	795,339	541,617
Between one and five years	2,292,268	2,924,280
More than five years	4,882,882	4,590,849
	7,970,489	8,056,746

10. Loans and advances:

a) Loans and advances, net

Loans and advances	157,152	157,348
Less: Provisions for impaired loans and advances	(157,152)	(157,348)
	-	-

10. Loans and advances (continued)

Loans and advances are all domestic:

b) Impairment provision for loans and advances	**2012**	**2011**
Balance at the beginning of the year	**157,348**	161,259
Recoveries and write-backs during the year	**(196)**	(3,911)
	157,152	**157,348**

11. Investments securities:

Investments comprise the following:		
- Financial assets at fair value through profit or loss	**491,689**	334,862
- Financial assets at fair value through other comprehensive income	**143,227**	210,515
- Financial assets measured at amortised cost	**221,765**	189,159
	856,681	**734,536**

During the year, the Group provided AED 0.4 million *(2011: AED 1.8 million)* as a specific impairment provisions relating to financial assets at amortised cost.

Investments securities – by geographical distribution

- Financial assets at fair value through profit or loss:		
Domestic	73,460	249,986
International	418,229	84,876
	491,689	334,862
- Financial assets at fair value through other comprehensive income		
Domestic	4,408	3,198
International	138,819	207,317
	143,227	210,515
- Financial assets measured at amortised cost		
Domestic	174,121	88,080
International	47,644	101,079
	221,765	189,159

Investments securities – by quoted / unquoted

- Financial assets at fair value through profit or loss:		
Quoted	405,515	279,279
Unquoted	86,174	55,583
	491,689	334,862
- Financial assets at fair value through other comprehensive income		
Quoted	4,408	3,198
Unquoted	138,819	207,317
	143,227	210,515
- Financial assets measured at amortised cost		
Quoted	185,140	88,080
Unquoted	36,625	101,079
	221,765	189,159

12. Investment properties

	Properties	Properties – work in progress	Total
Balance as at 1st January 2012	**177,207**	**13,837**	**191,044**
Addition	**16,508**	**13,536**	**30,044**
Revaluation gain	**2,200**	**-**	**2,200**
Capitalized	**24,635**	**(24,635)**	**-**
As at 31 December 2012	**220,550**	**2,738**	**223,288**
Balance as at 1st January 2011	179,076	2,255	181,331
Addition	-	11,582	11,582
Revaluation loss	(1,869)	-	(1,869)
As at 31 December 2011	**177,207**	**13,837**	**191,044**

12. Investment properties (continued)

	2012	2011
- Investment properties by geographical distribution:		
Domestic	217,086	183,337
International	6,202	7,707
	223,288	191,044

The carrying amount of investment property is the fair value of the property as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and is reviewed by the Board of Directors on a yearly/annual basis. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property.

13. Properties held for sale (Domestic):

	Properties	Properties held for sale - work in progress	Total
Balance as at 1st January 2012	1,020,803	24,186	1,044,989
Addition	6,120	38,385	44,505
Disposal during the year	(6,460)	-	(6,460)
As at 31 December 2012	1,020,463	62,571	1,083,034
Balance as at 1st January 2011	1,016,675	23,085	1,039,760
Addition	21,357	1,101	22,458
Disposal during the year	(17,229)	-	(17,229)
As at 31 December 2011	1,020,803	24,186	1,044,989

14. Other assets:

Prepaid expenses	35,971	36,123
Profit receivable	208,848	221,934
Sundry debtors	35,930	22,808
Assets available for sale-murabaha	14,522	7,615
Other Receivable subsidiaries	51,817	57,445
Reimbursements under acceptances	47,293	62,273
	394,381	408,198

15. Property and equipment:

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital work in progress	Total
Cost – 2012						
As at 1 January 2012	832,197	90,808	60,964	3,358	36,571	1,023,898
Additions	345	2,120	1,359	395	59,049	63,268
Disposals	(2,621)	(4,749)	(5,504)	(391)	-	(13,265)
Capitalised	3,819	1,128	3,254	-	(8,201)	-
As at 31 December 2012	833,740	89,307	60,073	3,362	87,419	1,073,901
Accumulated depreciation - 2012						
As at 1 January 2012	97,615	78,587	30,295	2,426	-	208,923
Additions	8,870	5,536	9,697	313	-	24,416
Disposals	(2,602)	(4,906)	(5,444)	(313)	-	(13,265)
As at 31 December 2012	103,883	79,217	34,548	2,426	-	220,074
Net book value						
As at 31 December 2012	729,857	10,090	25,525	936	87,419	853,827
As at 31 December 2011	734,582	12,221	30,669	932	36,571	814,975

(Currency: Thousands of U.A.E. Dirhams)

16. Customers' deposits:

	2012	2011
Current accounts	3,505,599	3,013,048
Saving accounts	1,222,990	914,149
Watany/call accounts	265,558	221,555
Time deposits	6,210,989	6,096,644
Margins	129,405	153,457
	11,334,541	10,398,853

17. Due to banks:

	2012	2011
On demand	16,246	6,006
Term deposit	453,944	894,966
	470,190	900,972

18. Sukuk payable :

Name of issuer	Maturity date	Profit rate	2012	2011
SIB Sukuk Company II Limited	25 May 2016	4.715%	1,464,457	1,463,062

On 26 May 2011, the Bank through a shari'a compliant Sukuk Financing arrangement raised medium term finance amounting to AED 1.47 billion (US$ 400 million). The Sukuk is listed on the London Stock Exchange PLC.

The terms of the arrangement includes the transfer of certain Ijarah receivable of the Bank on a co-ownership basis to the issuer. The assets are under control of the Bank and shall be continued to be serviced by the Bank.

The Issuer will pay the quarterly distribution amount from the returns received in respect of the Ijarah receivable. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to Sukuk holders on each quarterly distribution date. Upon expiry of this Sukuk the Bank has undertaken to repurchase the assets at the exercise price of US$ 400 million.

19. Other liabilities:

	2012	2011
Depositors' profit payable	59,142	30,257
Payables subsidiaries	61,932	55,073
Accrual and provision	7,635	6,910
Accounts payable	58,812	51,457
Provision for staff benefits	29,364	26,055
Profit Reserve	18,133	14,422
Managers' cheques	93,889	39,378
Obligations under acceptances	47,293	62,273
Sundry creditors	146,258	120,886
Others	919	7,031
	523,377	413,742

20. Share capital:

The Bank's issued and fully paid share capital comprises 2,425,500,000 shares of AED 1.0 each.

	2012		2011	
	No. of shares	Value	No. of shares	Value
Share capital	2,425,500,000	2,425,500	2,425,500,000	2,425,500
	2,425,500,000	2,425,500	2,425,500,000	2,425,500

21. Proposed cash dividend and Bonus Share :

The Directors propose to the Shareholders a cash dividend of 6% of the par value of share (AED 0.06 per share) amounting to AED 145.5 million *(compared to cash dividend of AED 145.5 million (AED 0.06 per share) for 2011).*

22. Proposed directors' remuneration:

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the proposed directors' remuneration of AED 2.4 million *(2011: AED 2.4 million)* has been treated as a as an appropriation from equity and is included in retained earnings.

23. Reserves :

In accordance with the Bank's Articles of Association and Article (82) of Union Law No. 10 of 1980, the Bank transfers 10% of annual net profits, if any, to the legal reserve until it equals 50% of the share capital. Also, in accordance with its Articles of Association, 10% of annual net profits, if any, maybe transferred to a statutory reserve until it is suspended by an ordinary general meeting upon a proposal by the Board of directors. The Statutory reserve can be utilized for the purposes determined by the ordinary general meeting upon recommendations of the Board of Director. The movements in reserves are as follows:

	Legal reserve	Statutory reserve	Fair value reserve
Balance at 1 January 2012	1,327,617	89,008	(20,481)
Transfer to reserve	609	-	-
Fair value adjustment - IFRS - 9	-	-	21,202
Change in fair-value of financial assets	-	-	(35,191)
Balance at 31 December 2012	1,328,226	89,008	(34,470)

The fair value reserve comprises the cumulative net change in fair values of financial assets through other comprehensive income.

	2012	2011
24. Fees, commission and other income:		
Fees and commissions	76,352	78,147
Net gains from dealing in foreign currencies	18,336	20,999
Income from investments securities	58,940	16,125
Income from properties held for sale	-	1,705
Rent income	8,913	7,301
Income from subsidiary companies	22,135	21,511
Other operating income	2,936	2,070
	187,612	147,858
25. General and administrative expenses:		
Staff costs	231,607	216,345
Depreciation	24,416	25,226
Other general and administrative expenses	80,555	74,237
	336,578	315,808
26. Provision - net of recoveries :		
a) provision for customer receivables – net of recoveries		
Provision made during the year	(61,462)	(59,960)
Recoveries during the year	15,654	23,615
	(45,808)	(36,345)
b) Other provision – net of recoveries		
Impairment provision – investment securities	(441)	(1,763)
Revaluation loss on investment properties	-	(1,869)
Impairment Provision - customer receivables – SIFS - net	8,447	(6,735)
	8,006	(10,367)
c) Other recoveries		
Other recoveries during the year	411	839
	411	839
Total provision - net of recoveries	(37,391)	(45,873)

27. Distribution to depositors:

The distribution of profit between depositor and shareholders is made in accordance with the methods approved by the Bank's Fatwa and Shari'a Supervisory Board effective from 1 July 2002. The Bank has adopted the "Common Pool Method" for distribution of profit between depositors and shareholders. The application of the above method resulted in:

	2012	2011
Appropriation to depositors	162,448	212,016
Transfer from profit equalisation reserve	3,711	4,994
	166,159	217,010

28. Basic and diluted earnings per share:

The calculation of earnings per share is based on earnings of AED 272.0 million *(2011: AED 251.1 million)* for the year divided by the number of shares outstanding during the year. There is no diluted effect on basic earnings per share.

29. Cash and cash equivalents:

Cash and cash equivalents comprise of	2012	2011
Cash and balances with banks and financial institutions	1,783,237	1,770,432
Wakala arrangements with financial institutions	1,880,212	1,988,586
	3,663,449	3,759,018
Less cash reserves with CBUAE	(707,944)	(659,479)
Cash and cash equivalents	2,955,505	3,099,539

Cash reserves with CBUAE are non-profit bearing and not available to fund day-to-day operations of the Bank.

30. Key accounting estimates, and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year and the resultant provisions and fair value. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, considerable judgment is required by management in respect of the following:

Impairment losses on financing receivables and ijarah receivable (Ijarah)

The Bank reviews its portfolios of financing receivables and ijarah receivable to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, 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 from a portfolio within financing receivables and ijarah receivable before the decrease can be identified with an individual receivable in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss. Experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in significant accounting policies.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

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 the market 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 valuations. 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 value 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 Group determines fair values using valuation techniques.

30. Key accounting estimates, and judgments in applying accounting policies (continued)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia use in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like profit rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Note	Level 1	Level 2	Level 3	Total
31 December 2012					
Financial assets					
Investment securities	11	**409,923**	-	224,993	634,916
		409,923	-	224,993	634,916
31 December 2011					
Financial assets					
Investment securities	11	282,477	-	262,900	545,377
		282,477	-	262,900	545,377

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for investment securities:

	2012	2011
Balance as at 1 January	**262,900**	273,282
Total gains or losses:		
in consolidated statement of income	**(2,334)**	604
in consolidated statement of comprehensive income through OCI	**(15,227)**	(5,590)
Disposals	**(20,346)**	(5,396)
Balance at 31 December	**224,993**	262,900

31. Segment reporting

The Bank's activities comprise the following main business segments:

a. Government and corporate

Within this business segment the Bank provides companies, institutions and government departments with a range of Islamic financial products and services.

b. Retail

The retail segment provides a wide range of Islamic financial services to individuals.

c. Investment and treasury

This segment mainly includes income on investments of the Bank and other money market activities.

31. Segment reporting (continued)

d. Subsidiaries

SNH through its divisions is engaged in operating hotels and resorts, catering and related services and Sharjah Islamic Financial service which is offering brokerage services for trading in Islamic Shari'a compliant shares.

	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
Consolidated statement of income:					
For the year ended 31st December 2012:					
Income from murabaha and leasing	423,466	231,681	40,087	-	695,234
Paid Sukuk	-	-	(70,715)	-	(70,715)
Fees, Commission and other income	35,268	36,701	66,978	-	138,947
Income for subsidiaries	-	-	-	22,135	22,135
Unallocated income	-	-	-	-	26,530
Total income	458,734	268,382	36,350	22,135	812,131
General and administrative expenses	-	-	-	(17,217)	(17,217)
General and administrative expenses – unallocated	-	-	-	-	(319,361)
Net operating income	458,734	268,382	36,350	4,918	475,553
Provisions- net of recoveries	(828)	(36,772)	(8,238)	8,447	(37,391)
Net profit before distribution to depositors	457,906	231,610	28,112	13,365	438,162
Distribution to depositors	(104,882)	(55,909)	(1,657)	-	(162,448)
Transfer to profit equalization reserve - unallocated	-	-	-	-	(3,711)
Net profit for the year	353,024	175,701	26,455	13,365	272,003
Consolidated statement of financial position:					
As at 31st December 2012:					
Assets					
Segment assets	6,626,698	4,227,248	6,210,208	715,740	17,779,894
Unallocated assets	-	-	-	-	536,335
Total assets	6,626,698	4,227,248	6,210,208	715,740	18,316,229
Liabilities					
Segment liabilities	6,485,172	4,896,662	1,934,647	61,932	13,378,413
Unallocated liabilities	-	-	-	-	493,918
Total liabilities	6,485,172	4,896,662	1,934,647	61,932	13,872,331

31. Segment reporting (continued)

	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
Consolidated statement of income:					
For the year ended 31st December 2011:					
Income from murabaha and leasing	402,821	269,268	58,977	-	731,06
Sukuk payable	-	-	(49,112)	-	(49,112
Fees, commission and other income	39,561	31,984	32,071	23,380	126,99
Unallocated income	-	-	-	-	20,86
Total income	**442,382**	**301,252**	**41,936**	**23,380**	**829,81**
General and administrative expenses	-	-	-	(22,871)	(22,871
General and administrative expenses - unallocated	-	-	-	-	(292,937
Net operating income	**442,382**	**301,252**	**41,936**	**509**	**514,00**
Provisions- net of recoveries	(12,030)	(15,495)	(7,981)	(10,367)	(45,873
Net profit before distribution to depositors	**430,352**	**285,757**	**33,955**	**(9,858)**	**468,13**
Distribution to depositors	(142,931)	(67,395)	(1,690)	-	(212,016
Transfer to profit equalization reserve - unallocated	-	-	-	-	(4,994
Net profit for the year	**287,421**	**218,362**	**32,265**	**(9,858)**	**251,12**
Consolidated statement of financial position:					
As at 31st December 2011:					
Assets					
Segment assets	6,139,305	4,154,040	6,238,477	672,112	17,203,93
Unallocated assets	-	-	-	-	529,20
Total assets	**6,139,305**	**4,154,040**	**6,238,477**	**672,112**	**17,733,14**
Liabilities					
Segment liabilities	5,824,985	4,636,141	2,364,034	55,073	12,880,23
Unallocated liabilities	-	-	-	-	446,75
Total liabilities	**5,824,985**	**4,636,141**	**2,364,034**	**55,073**	**13,326,98**

(Currency: Thousands of U.A.E. Dirhams)

31. Segment reporting (continued)
Geographical Distribution for Assets and Liabilities

Assets 2012:	Total	GCC	Other Arab Countries	North America	Europe	Asia	Other
Cash and balances with banks and financial institutions	1,783,237	1,778,672	407	-	3,530	245	383
International murabaha and wakalah with financial institutions	2,372,410	2,298,950	-	-	73,460	-	-
Financing receivables	2,778,882	2,735,290	-	-	43,592	-	-
Financing ijarah	7,970,489	7,970,489	-	-	-	-	-
Investments securities	856,681	700,063	6,416	2,290	147,654	258	-
Investment properties	223,288	217,086	6,202	-	-	-	-
Properties held for sale	1,083,034	1,083,034	-	-	-	-	-
Other assets	394,381	394,381	-	-	-	-	-
Property and equipment	853,827	853,827	-	-	-	-	-
Total assets	18,316,229	18,031,792	13,025	2,290	268,236	503	383
Liabilities 2012:							
Customers' deposits	11,334,541	11,324,629	82	-	9,809	21	-
Due to banks	470,190	450,262	141	7,706	11,781	300	-
Sukuk payable	1,464,457	-	-	-	1,464,457	-	-
Other liabilities and zakat payable	603,143	603,143	-	-	-	-	-
Shareholders' Equity	4,443,898	4,443,898	-	-	-	-	-
Total liabilities and shareholder's equity	18,316,229	16,821,932	223	7,706	1,486,047	321	-

31. Segment reporting (continued)
Geographical Distribution for Assets and Liabilities (continued)

Assets 2011:	Total	GCC	Other Arab Countries	North America	Europe	Asia	Other
Cash and balances with banks and financial institutions	1,770,432	1,750,353	365	1,721	6,186	225	11,582
International murabaha and wakalah with financial institutions	2,341,534	2,286,122	-	-	55,412	-	-
Financing receivables	2,370,688	2,361,809	-	-	8,879	-	-
Financing ijarah	8,056,746	8,056,746	-	-	-	-	-
Investments securities	734,536	658,851	-	15,428	18,297	34,894	7,066
Investment properties	191,044	183,337	7,707	-	-	-	-
Properties held for sale	1,044,989	1,044,989	-	-	-	-	-
Other assets	408,198	408,198	-	-	-	-	-
Property and equipment	814,975	814,975	-	-	-	-	-
Total assets	17,733,142	17,565,380	8,072	17,149	88,774	35,119	18,648

Liabilities 2011:	Total	GCC	Other Arab Countries	North America	Europe	Asia	Other
Customers' deposits	10,398,853	10,387,086	-	-	11,702	65	-
Due to banks	900,972	900,866	-	-	-	106	-
Sukuk payable	1,463,062	-	-	-	1,463,062	-	-
Other liabilities	564,097	564,097	-	-	-	-	-
Shareholders' Equity	4,406,158	4,406,158	-	-	-	-	-
Total liabilities and shareholder's equity	17,733,142	16,258,207	-	-	1,474,764	171	-

32. Contingencies and commitments :

The Bank provides financial guarantees and letter of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period.

The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

These contingent liabilities have off balance-sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

	2012	2011
a)Letter of credit - by sector:		
Government departments and authorities	-	1,428
Corporate	143,115	151,678
	143,115	153,106
b)Letter of guarantee – by sector:		
Government of sharjah	87,603	4,500
Government departments and authorities	20	95,750
Corporate	657,376	515,865
Retail and others	44,335	44,332
	789,334	660,447

Others

The Bank has issued a financial commitment to the Planning and Survey Department of UAE/Sharjah amounting to AED 181.5 million Dirhams against sale of properties held for sale, under development till the completion of this projects.*(2011 : AED 181.5 million).*

In addition a financial commitments of AED 80.0 Million which comprises of AED 20.0 million issued to Abu Dhabi securities exchange, AED 30.0 million to Dubai Financial Market and AED 30.0 million to UAE Central Bank against conducting brokerage operations for Sharjah Islamic Financial Services *(2011 : AED 80.0 million).*

33. Related parties:

The Bank has transactions in the ordinary course of business with directors, staff of the Bank and entities of which they are principal owners.

The significant balances outstanding at 31st December in respect of related parties included in the consolidated financial statements are as follows:

	2012	2011
Government of Sharjah receivables	1,335,056	1,013,637
Government departments and authorities receivables	2,746,670	2,750,234
Other financing receivables and investing activities	757,856	963,357
Government of Sharjah deposits	24,964	38,518
Government department & authority deposits	3,500,498	1,596,193
Other deposits	284,931	293,997
Contingent liabilities	159,121	115,897
Income from financing and investing activities	285,619	223,702
Depositors' share of profit	27,509	33,585

Key management compensation includes salaries and other short term benefits of AED 14.9 million in 2012 *(2011: AED 13.2 million)* and post employment benefits of AED 0.9 million in 2012 *(2011: AED 0.8 million).*

No impairment loss has been recognized against balances outstanding with key management personnel and other related parties

34. Fiduciary activities:

The Bank has launched a shari'a compliant investment fund 'Tharwa Islamic Equity Portfolio' ("the fund") during 2005. The Bank in its capacity as a portfolio agent of the fund is responsible for certain fiduciary activities on behalf of customers investing in the fund. At the reporting date, the net assets value per unit of the fund was AED 8.6 million *(2011: AED 7.8 million).*

35. Comparatives figures:

Certain prior year comparatives have been reclassified in order to conform to current year's presentation. The comparatives set out in these consolidated financial statements represent the activities of the Group.