

Finance House P.S.C.

CHAIRMAN'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FINANCE HOUSE P.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Finance House P.S.C. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial position of the Group as of 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the report of the Chairman relating to these consolidated financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

A handwritten signature in black ink, appearing to read 'Richard Mitchell', with a horizontal line underneath.

Signed by
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

11 February 2013
Abu Dhabi



Chairman's Report for the year ended 31 December 2012

On behalf of the Board of Directors, I am pleased to present the financial statements of Finance House P.J.S.C (FH) and its subsidiaries (FH Group) as at 31 December 2012. For the year ended 31 December 2012, we achieved a net profit of AED 72.2 million, which is 20.4% higher than the net profit of AED 60 million achieved in the previous year. Total Assets grew to AED 3.72 billion, registering a steady increase of 6% over AED 3.51 billion as at 31 December 2011.

Despite challenging market conditions and a tighter regulatory framework, we are proud to maintain our profitable stance for the eighth successive year since inception. For a genuine private sector enterprise operating in the fiercely competitive UAE financial services sector, this is a creditable achievement indeed.

During the year, Customer deposits grew by a robust 16.5% to reach AED 1.80 billion compared to AED 1.55 billion as at the end of the previous year.

This is a remarkable achievement and bears testimony to the continued confidence that the market places in Finance House.

Net Interest Income from core business activities grew by 1.6% to AED 122.2 million in 2012 compared to AED 120.3 million in 2011. Despite robust growth in loan book during the year, increase in net interest income was only marginal, mainly due to lower interest earned on inter-bank placements where interest rates remained subdued throughout 2012 in comparison to 2011. Net Fee and Commission income from core business activities registered a healthy growth of over 21%, increasing to AED 28.9 million in 2012 from AED 23.8 million in 2011.

Loans & Advances as at 31 December 2012 grew by 14% to AED 1.38 billion compared to AED 1.21 billion at the end of the previous year. At the same time, Islamic financing and investing assets also registered a healthy growth of over 13.7% to reach AED 78.3 million as at 31 December 2012.

Our Loans to Deposits ratio as of 31 December 2012 stood at a healthy 80.8% compared to 82.5% in the previous year, reflecting both our cautious approach to loan book growth and the significant head room available for sustained loan book growth in 2013 and beyond.

Our bad debt provisioning policy continues to be conservative and as of 31 December 2012, we maintain loan loss coverage of 81% (2011:74%) by way of specific provisions to cover net exposure against individually impaired loans and loan balances that are past due for 91 days or more but are not impaired. In addition, we also maintain collective provision of 1.25% of the Performing Portfolio.



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Our well diversified proprietary investment portfolio has also made a significant positive contribution to boost the Group bottom line in 2012.

Total operating expenses were higher in 2012 compared to 2011 mainly on account of hiring new employees and higher establishment costs, in line with increased business volumes across all business segments. Despite higher operating expenses, the Cost/Income ratio improved by 4.5% in 2012 compared to 2011.

FH Group continues to manage its liquidity in a prudent manner. Since the onset of the financial crisis in October 2008, we have remained net lenders to the UAE inter-bank market and continue to maintain this position till date. Cash and cash equivalents as at 31 December 2012 stood at AED 599 million compared to AED 526 million as at the end of the previous year, representing a healthy 16% of Total Assets.

Shareholders' equity as at 31 December 2012 improved to AED 651 million and the Capital adequacy ratio stood at a robust 26.6%, providing a solid footing for accelerated future growth.

Bearing the above in mind, the Board has recommended a cash dividend of 20% subject to regulatory approvals.

We look forward to 2013 with renewed optimism for sustained profitable growth, in line with improving economic conditions- locally and globally. Our strategy is sound and we have the necessary mechanisms and structures in place to exploit profitable opportunities, to adapt quickly to changing market conditions, to continue managing risks well and to maximize returns for our shareholders.

On behalf of the Board of Directors,

Mohammed Alqubaisi
Chairman



Abu Dhabi
11 February 2013

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Finance House P.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 AED'000	Restated 2011 AED'000
ASSETS			
Cash balances	4	8,395	7,273
Due from banks	4	1,053,635	823,673
Investments carried at fair value through other comprehensive income	5	242,362	275,164
Investments carried at fair value through profit and loss	5	305,340	38,977
Investments carried at amortised cost	5	-	556,180
Loans and advances, net	6	1,378,785	1,208,857
Islamic financing and investing assets	7	78,295	68,834
Investment in associates	8	43,155	51,240
Goodwill	9	11,678	11,678
Statutory deposit	10	6,000	6,000
Property, fixtures and equipment	11	235,491	173,529
Investment property	12	101,563	87,599
Interest receivable and other assets	13	<u>257,366</u>	<u>197,959</u>
TOTAL ASSETS		<u>3,722,065</u>	<u>3,506,963</u>
LIABILITIES			
Customers' deposits	14	1,803,671	1,548,430
Due to banks		289,985	422,950
Term loans	15	228,831	408,200
Interest payable and other liabilities	16	612,359	485,852
Provision for employees' end of service benefits		7,561	6,678
Non-convertible sukuk	17	<u>128,600</u>	<u>-</u>
TOTAL LIABILITIES		<u>3,071,007</u>	<u>2,872,110</u>
EQUITY			
Share capital	18	302,500	302,500
Treasury shares	22	(4,689)	(4,182)
Employees' share-based payment scheme	19	(1,750)	(1,750)
Statutory reserve	20	116,112	109,345
Revaluation reserve		18,962	18,962
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		(66,788)	(136,200)
Retained earnings		149,355	213,064
Proposed directors' remuneration		<u>4,578</u>	<u>4,179</u>
		518,280	505,918
Non-controlling interests		<u>132,778</u>	<u>128,935</u>
TOTAL EQUITY		<u>651,058</u>	<u>634,853</u>
TOTAL LIABILITIES AND EQUITY		<u>3,722,065</u>	<u>3,506,963</u>
Commitments and contingent liabilities	23	<u>1,080,414</u>	<u>1,045,983</u>
Mr. Mohammed Alqubaisi CHAIRMAN		Mr. Hamid Taylor GENERAL MANAGER	

The attached notes 1 to 34 form part of these consolidated financial statements.

Finance House P.S.C.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	<i>Notes</i>	2012 AED'000	<i>Restated</i> <i>2011</i> <i>AED'000</i>
Interest income		185,576	181,752
Interest expense		<u>(63,331)</u>	<u>(61,402)</u>
Net interest income	24	<u>122,245</u>	<u>120,350</u>
Fee and commission income		39,004	36,417
Fee and commission expense		<u>(10,079)</u>	<u>(12,567)</u>
Net fee and commission income	25	<u>28,925</u>	<u>23,850</u>
Contract revenue		112,028	141,406
Contract costs		<u>(109,293)</u>	<u>(127,283)</u>
Net contract income		<u>2,735</u>	<u>14,123</u>
Net insurance premiums earned		27,183	5,369
Net insurance claims incurred		<u>(19,717)</u>	<u>(4,659)</u>
Net insurance commission expense		<u>(7,182)</u>	<u>(1,709)</u>
Net insurance income (loss)	26	<u>284</u>	<u>(999)</u>
Income from Islamic financing and investing assets		8,260	1,658
Profit distributable to depositors		<u>(1,828)</u>	<u>(1,233)</u>
Profit distributable to sukuk holders		<u>(4,130)</u>	-
Dividend income from investments carried at fair value through other comprehensive income		10,578	8,059
Net income (loss) from investments carried at fair value through profit and loss	27	24,992	(6,564)
Net income from investment property		7,570	6,967
Gain on disposal of investments carried at amortized cost		41,093	-
Gain on fair valuation of investment property	12	9,000	-
Share of loss of associates	8	<u>(8,085)</u>	<u>(788)</u>
Other operating income, net		<u>1,795</u>	<u>4,232</u>
Total operating income		<u>243,434</u>	<u>169,655</u>
Salaries and employees related expenses		<u>(86,050)</u>	<u>(63,502)</u>
Reversal of provision for contract losses		-	3,225
Depreciation of property, fixtures and equipment	11	<u>(7,109)</u>	<u>(7,218)</u>
General and administrative expenses		<u>(41,682)</u>	<u>(34,106)</u>
Allowance for impairment of Islamic financing and investing assets	7	<u>(1,210)</u>	<u>(677)</u>
Allowance for impairment of loans and advances, net	6	<u>(35,153)</u>	<u>(7,369)</u>
Total operating expenses and allowances		<u>(171,204)</u>	<u>(109,647)</u>
Profit for the year		<u>72,230</u>	<u>60,008</u>
Attributable to:			
Equity holders of the parent		67,667	62,229
Non-controlling interests		<u>4,563</u>	<u>(2,221)</u>
		<u>72,230</u>	<u>60,008</u>
Basic and diluted earnings per share attributable to ordinary shares (AED)	28	<u>0.23</u>	<u>0.21</u>

The attached notes 1 to 34 form part of these consolidated financial statements.

Finance House P.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	<i>2012</i> <i>AED'000</i>	<i>Restated</i> <i>2011</i> <i>AED'000</i>
Profit for the year	<u>72,230</u>	<u>60,008</u>
Other comprehensive income		
Net gain (loss) on financial assets measured at fair value through other comprehensive income	9,161	(58,631)
Directors' remuneration paid	<u>(4,179)</u>	<u>(8,983)</u>
Other comprehensive income (loss) for the year	<u>4,982</u>	<u>(67,614)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>77,212</u>	<u>(7,606)</u>
Attributable to:		
Equity holders of the parent	73,369	(5,144)
Non-controlling interests	<u>3,843</u>	<u>(2,462)</u>
	<u>77,212</u>	<u>(7,606)</u>

The attached notes 1 to 34 form part of these consolidated financial statements.

Finance House P.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Share capital AED'000	Employees' share-based payment scheme AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Cumulative changes in fair value AED'000	Retained earnings AED'000	Proposed directors' remuneration AED'000	Treasury shares AED'000	Attributable to shareholders of the parent company AED'000	Non controlling interests AED'000	Total AED'000
2011											
Balance at 1 January 2011	275,000	(1,750)	103,021	18,962	(114,444)	266,722	8,983	-	556,494	-	556,494
Loss on disposal of investments carried at fair value through other comprehensive income - <i>Restated</i>	-	-	-	-	36,634	(36,634)	-	-	-	-	-
Profit (loss) for the year - <i>Restated</i>	-	-	-	-	-	62,229	-	-	62,229	(2,221)	60,008
Decrease in fair value of investments carried at fair value through other comprehensive income - <i>Restated</i>	-	-	-	-	(58,390)	-	-	-	(58,390)	(241)	(58,631)
Directors' remuneration paid	-	-	-	-	-	-	(8,983)	-	(8,983)	-	(8,983)
Total comprehensive (loss) income for the year	-	-	-	-	(58,390)	62,229	(8,983)	-	(5,144)	(2,462)	(7,606)
Proposed directors' remuneration	-	-	-	-	-	(4,179)	4,179	-	-	-	-
Cash dividend paid (note 21)	-	-	-	-	-	(41,250)	-	-	(41,250)	-	(41,250)
Transfer to statutory reserve	-	-	6,324	-	-	(6,324)	-	-	-	-	-
Purchase of treasury shares - <i>Restated</i>	-	-	-	-	-	-	-	(4,182)	(4,182)	-	(4,182)
Stock dividend paid (note 18)	27,500	-	-	-	-	(27,500)	-	-	-	-	-
Increase in non-controlling interest - <i>Restated</i>	-	-	-	-	-	-	-	-	-	131,397	131,397
Balance at 31 December 2011 - <i>Restated</i>	<u>302,500</u>	<u>(1,750)</u>	<u>109,345</u>	<u>18,962</u>	<u>(136,200)</u>	<u>213,064</u>	<u>4,179</u>	<u>(4,182)</u>	<u>505,918</u>	<u>128,935</u>	<u>634,853</u>
2012											
Balance at 1 January 2012 - <i>Restated</i>	302,500	(1,750)	109,345	18,962	(136,200)	213,064	4,179	(4,182)	505,918	128,935	634,853
Loss on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	59,531	(59,531)	-	-	-	-	-
Profit for the year	-	-	-	-	-	67,667	-	-	67,667	4,563	72,230
Increase in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	9,881	-	-	-	9,881	(720)	9,161
Directors' remuneration paid	-	-	-	-	-	-	(4,179)	-	(4,179)	-	(4,179)
Total comprehensive income for the year	-	-	-	-	9,881	67,667	(4,179)	-	73,369	3,843	77,212
Proposed directors' remuneration	-	-	-	-	-	(4,578)	4,578	-	-	-	-
Cash dividend paid (note 21)	-	-	-	-	-	(60,500)	-	-	(60,500)	-	(60,500)
Transfer to statutory reserve	-	-	6,767	-	-	(6,767)	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	(507)	(507)	-	(507)
Balance at 31 December 2012	<u>302,500</u>	<u>(1,750)</u>	<u>116,112</u>	<u>18,962</u>	<u>(66,788)</u>	<u>149,355</u>	<u>4,578</u>	<u>(4,689)</u>	<u>518,280</u>	<u>132,778</u>	<u>651,058</u>

The attached notes 1 to 34 form part of these consolidated financial statements.

Finance House P.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 AED'000	Restated 2011 AED'000
OPERATING ACTIVITIES			
Profit for the year		72,230	60,008
Non cash adjustments for:			
Depreciation		7,109	7,218
Gain on fair valuation of investment property		(9,000)	-
Gain on sale of investments carried at amortized cost		(41,093)	-
Share of loss of associates		8,085	788
Reversal of provision for contract losses		-	(3,225)
Allowance for impairment of loans and advances		35,153	7,369
Allowance for impairment of Islamic financing and investing assets		1,210	677
Gain on acquisition of a subsidiary		-	(2,608)
Net movement in provision for employees' end of service benefits		883	380
Working capital adjustments:			
(Increase) decrease in due from banks maturing after three months		(25,202)	287,622
Increase in Islamic financing and investing assets		(10,671)	(23,542)
Increase in loans and advances		(205,081)	(98,686)
(Increase) decrease in interest receivable and other assets		(59,407)	83,586
(Decrease) increase in term loans		(179,369)	235,039
(Decrease) increase in due to banks maturing after three months		(265,866)	31,936
Increase (decrease) in customers' deposits		255,241	(146,830)
Increase (decrease) in interest payable and other liabilities		126,507	(34,398)
Dividend income from investments carried at fair value through other comprehensive income		(10,578)	(8,188)
Dividend income from investments carried at fair value through profit and loss		(792)	(614)
(Gain) loss on disposal of investments carried at fair value through profit and loss		(11,441)	3,892
Unrealised (gain) loss on investments carried at fair value through profit and loss		(12,759)	3,233
Net cash (used in) from operating activities		<u>(324,841)</u>	<u>403,657</u>
INVESTING ACTIVITIES			
Purchase of investments carried at fair value through other comprehensive income		(9,804)	(73,390)
Proceeds from sale of investments carried at fair value through other comprehensive income		51,767	97,795
Purchase of investments carried at fair value through profit and loss		(16,690)	(29,732)
Proceeds from sale of investments carried at fair value through profit and loss		29,814	24,412
Purchase of investments carried at amortised cost		(726,259)	(483,250)
Proceeds from sale of investments carried at amortized cost		1,068,245	-
Addition to investment property		(4,964)	(16,234)
Purchase of property, fixtures and equipment		(69,071)	(58,771)
Acquisition of subsidiaries, net of cash acquired		-	158,087
Increase in non-controlling interests		-	66,750
Purchase of investment in associates		-	(7,515)
Disposal of investment in associates		-	30,696
Increase in statutory deposit		-	(6,000)
Dividend income received		11,370	8,802
Net cash from (used in) investing activities		<u>334,408</u>	<u>(288,350)</u>
FINANCING ACTIVITIES			
Directors remuneration paid		(4,179)	(8,983)
Issuance of non-convertible sukuk		128,600	-
Purchase of treasury shares		(507)	-
Dividend paid		(60,500)	(41,250)
Net cash from (used in) financing activities		<u>63,414</u>	<u>(50,233)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		72,981	65,074
Cash and cash equivalents at 1 January	4	<u>526,093</u>	<u>461,019</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	<u>599,074</u>	<u>526,093</u>

The attached notes 1 to 34 form part of these consolidated financial statements.

Finance House P.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

1 ACTIVITIES

Finance House P.S.C. (the "Company") is a Public Joint Stock Company incorporated in Abu Dhabi, United Arab Emirates (U.A.E.) in accordance with the provisions of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), the U.A.E. Central Bank, the Monetary System and Organization of Banking Law No. (10) of 1980 and under authority of resolutions of the Board of Directors of the U.A.E. Central Bank relating to Finance Companies.

The Company was established on 13 March 2004 and commenced its operations on 18 July 2004. The Company performs its activities through its head office in Abu Dhabi and its Abu Dhabi, Dubai and Sharjah branches. The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

The registered head office of the Company is at P.O. Box 7878, Abu Dhabi, U.A.E.

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 11 February 2013.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the laws in the U.A.E.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments and properties which are carried at fair value and land which is carried at the revalued amount.

The consolidated financial statements of the Group are prepared in U.A.E. Dirhams (AED) which is the functional currency of the Group. All values are rounded to the nearest thousand (AED '000), except otherwise indicated.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and those of its following subsidiaries:

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>Ownership interest %</i>	<i>Principal activity</i>
Third Vision Investment L.L.C.	U.A.E.	100	Own and manage head office premises
Benyan Development Co L.L.C.	U.A.E.	100	Construction
Emirates National Electromechanical L.L.C.	U.A.E.	100	Electromechanical contracting
FH Capital Limited (D.I.F.C.)	U.A.E.	100	Investment and asset management
Finance House Sukuk Company I	Cayman Islands	100	Sukuk issuance
Islamic Finance House P.J.S.C.*	U.A.E.	47.83	Islamic financing services
Insurance House P.S.C.**	U.A.E.	44.38	Insurance
FH Services L.L.C.	U.A.E.	100	Investment management
Finance House Securities Co L.L.C.	U.A.E.	65	Brokerage

* Islamic Finance House P.J.S.C. was consolidated effective April 2011, being the date on which the Company obtained control (note 2.3).

** Insurance House P.S.C. was consolidated effective April 2011 being the date on which the Company obtained control and the date on which the subsidiary commenced commercial operations (note 2.3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.2 BASIS OF CONSOLIDATION continued

Summarized financial information on subsidiaries with non-controlling interests before elimination entries is as follows:

	<i>Insurance House P.S.C.</i>		<i>Islamic Finance House P.J.S.C.</i>		<i>Finance House Securities Co. LLC</i>		<i>Total</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Non-controlling interests %	55.62	55.62	52.17	52.17	35	35		
<i>Subsidiaries' statement of financial position</i>								
Assets	302,566	263,992	263,549	142,640	70,794	46,477	636,909	453,109
Liabilities	175,882	147,365	162,928	42,310	42,079	14,075	380,889	203,750
Net assets	<u>126,684</u>	<u>116,627</u>	<u>100,621</u>	<u>100,330</u>	<u>28,715</u>	<u>32,402</u>	<u>256,020</u>	<u>249,359</u>
<i>Subsidiaries' revenues and profits (losses)</i>								
Revenue, net	<u>35,393</u>	<u>7,550</u>	<u>11,677</u>	<u>6,605</u>	<u>2,356</u>	<u>779</u>	<u>49,426</u>	<u>14,934</u>
Net profit (loss) for the year	<u>10,012</u>	<u>(2,470)</u>	<u>541</u>	<u>(419)</u>	<u>(3,686)</u>	<u>(1,795)</u>	<u>6,867</u>	<u>(4,684)</u>
Total comprehensive income (expense) for the year	<u>9,752</u>	<u>(3,269)</u>	<u>291</u>	<u>(643)</u>	<u>(3,686)</u>	<u>(1,795)</u>	<u>6,357</u>	<u>(5,707)</u>

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new standards and amendments to IFRS effective as of 1 January 2012 which do not have any significant impact on the consolidated financial statements:

IAS 12 Income Taxes — Recovery of Underlying Assets (Amendment)

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures..

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.3 CHANGES IN ACCOUNTING POLICIES continued

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

New Standards relating to consolidated financial statements

In May 2011, the International Accounting Standards Board ("IASB") issued an amended version of IAS 27 with a new title together with IFRS 10 and IFRS 12. In addition, as a result of its project on joint ventures, the IASB issued, at the same time, IFRS 11 (to replace IAS 31 – Interests in Joint Ventures) and an amended IAS 28. These new standards are mandatory for annual periods beginning on or after 1 January 2013. However, the new standards may be adopted early, but must be adopted as a package, that is, all as of the same date, except that an entity may early adopt the disclosure provisions for IFRS 12 (without adopting the other new standards).

The Company has voluntarily adopted all of these standards for the year ended 31 December 2012. The Company has chosen to use 1 January 2012 as its date of initial application.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of the old IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation - Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled and therefore, are required to be consolidated by the Company, compared with the requirements that were in IAS 27. The Company, regardless of the nature of its involvement with an entity, shall determine whether it is a parent by assessing whether it controls the entity. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Once control is established, the standard requires the Company to start consolidating the investee from the date the investor obtains control of the investee and cease consolidation when the investor loses control of the investee.

The early adoption of IFRS 10 resulted in the establishment of 'de facto' control over two of the Company's investees, Insurance House PSC and Islamic Finance House PJSC which were previously accounted for as associates. These entities are consolidated in the Group's consolidated financial statements retrospectively from April 2011 being the date on which the Company obtained control.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard did not have any impact on the financial position or performance of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but have no impact on the Group's financial position or performance.

Finance House P.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.3 CHANGES IN ACCOUNTING POLICIES continued

New Standards relating to consolidated financial statements continued

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The application of this new standard did not have any impact on the financial position or performance of the Group.

As a result of the voluntary changes in accounting policies described above, the following adjustments were made to the consolidated financial statements:

As of and for the year ended 31 December 2011:

	2011 AED'000
<i>Net increase (decrease) in assets</i>	
Cash balances	40
Due from banks	85,640
Investments carried at fair value through other comprehensive income	(2,141)
Investments carried at fair value through profit and loss	989
Investments carried at amortised cost	115,630
Islamic financing and investing assets	68,834
Investment in associates	(98,242)
Goodwill	6,705
Statutory deposit	6,000
Property, fixtures and equipment	2,351
Other receivable and assets	<u>10,085</u>
	<u>195,891</u>
<i>Net decrease (increase) in liabilities</i>	
Customers' deposits	(73,247)
Due to banks	134,774
Other payable and liabilities	21,094
Provision for employees' end of service benefits	<u>354</u>
	<u>82,975</u>
Increase in net assets	<u>112,916</u>
<i>Changes in income/expenses</i>	
Increase in interest income	5,497
Decrease in interest expense	<u>2,812</u>
Increase in net interest income	<u>8,309</u>
Increase in fee and commission income	<u>50</u>
Increase in net insurance premium earned	5,369
Increase in net insurance claims incurred	(4,659)
Increase in net insurance commission expense	<u>(1,709)</u>
Decrease in net insurance income	<u>(999)</u>
Increase in income from Islamic financing and investing assets	1,658
Increase in net loss from investments carried at fair value through profit and loss	(20)
Decrease in share of loss of associates	1,519
Increase in profit distributable to depositors	(1,233)
Increase in other operating income	<u>222</u>
Increase in total operating income	<u>9,506</u>
Increase in salaries and employees related expenses	(7,171)
Increase in depreciation of property, fixtures and equipment	(746)
Increase in general and administrative expenses	(4,145)
Increase in allowance for impairment of Islamic financing assets	<u>(677)</u>
Increase in total operating expenses and allowances	<u>(12,739)</u>
Decrease in profit for the year	<u>(3,233)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following IASB Standards and amendments have been issued but are not yet mandatory, and have not yet been adopted by the Group:

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 19 Employee Benefits – Amendments
- IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
- IFRS 1 Government Loans – Amendments to IFRS 1
- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
- IFRS 13 Fair Value Measurement
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Annual improvements May 2012

The Group, however, expects no material impact from the adoption of the above new standards and amendments on its financial position or performance.

2.5 SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with the U.A.E. Central Bank, due from banks which mature within three months from the date of placement, net of balances due to banks maturing within three months from the date of acceptance.

Due from banks

Due from banks are stated at amortised cost using the effective interest rate less any amounts written off and provision for impairment.

Investment in associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf.

The Group's share of the result of operations of associates is included in the consolidated income statement. Unrealized profits and losses from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate.

Financial assets

Financial assets – initial recognition and subsequent measurement

Date of recognition

All financial assets are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement

All financial assets are initially measured at their fair value plus transaction costs, except for those financial assets measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Subsequent measurement

The subsequent measurement of financial assets depends on the Group's business model for managing those financial assets and their contractual cash flow characteristics.

Transaction costs expected to be incurred on transfer or disposal of a financial instrument are not included in the measurement of the financial instrument.

Financial assets measured at amortised cost

Financial assets are measured at amortised cost only if the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount. An inability to meet these two criteria requires the financial asset to be subsequently measured at fair value through profit or loss. However, even where both conditions are met, the Company may elect upon initial recognition to measure the financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments (including derivatives embedded in financial host assets) meeting these criteria are subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment charges and transaction costs incurred upon initial recognition. The effective interest rate method calculates an interest rate which exactly discounts estimated future cash receipts through the expected life of the financial asset or a shorter period (where appropriate) to the net carrying amount of the financial asset. After initial measurement at fair value, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate method. The amortisation is included in interest income in the income statement. The losses arising from impairment are recognised in the income statement in allowance for impairment of loans and advances.

Other financial assets measured at fair value through profit and loss

Financial assets which do not meet the amortised cost criteria such as derivatives and financial assets held for trading are measured at fair value through profit or loss. Gains or losses arising on subsequent measurement of these financial assets are recognised in the income statement. The Company determines an asset's fair value in accordance with the Company's accounting policy on fair value as discussed in note 33.

Financial assets held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend is recorded in net trading income according to the terms of the contract, or when the right to the payment has been established.

Islamic financing and investing assets

Islamic financing assets are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Company provides funds directly to a customer with no intention of trading the receivable.

Murabaha is stated at amortised cost less any provisions for impairment and deferred income.

Istisna'a cost is measured and reported in the financial statements at a value not exceeding the cash equivalent value.

The Ijara is classified as a finance lease, when the Company undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Equity investments at fair value through other comprehensive income

Equity investments not held for trading can be designated as being measured at fair value through other comprehensive income at initial recognition and such an election is irrevocable. This designation is made on an instrument-by-instrument basis. Gains or losses arising on subsequent measurement of these equity investments are recognised in other comprehensive income. The gain or loss on disposal of the asset is reclassified to retained earnings and is not recycled to profit or loss. Transaction costs on disposal are taken to the income statement. Dividends received on these equity investments are recognised in the income statement unless the dividend represents recovery of the cost of the investment.

Financial assets designated at fair value through profit or loss

Financial assets classified in this category are those that have been designated by management at initial recognition. Management may designate a financial asset at fair value through profit or loss upon initial recognition only when the first of the following criteria is met. Designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net gain or loss on financial assets designated at fair value through profit or loss. Interest earned is accrued in interest income, using the effective interest rate method, while dividend income is recorded in other operating income when the right to the payment has been established.

Financial assets, other than those designated at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period.

Individually assessed loans

Individually assessed loans represent mainly corporate and commercial loans which are assessed individually and classified by the credit risk unit in order to determine whether any objective evidence exists that a loan is impaired. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

Collectively assessed loans

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

- Performing loans
- Retail loans with common features and which are not individually significant

Performing loans

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating.

Impairment loss includes losses which may arise from individual performing loans that were impaired at the end of the reporting period but were not specifically identified as such as at that date. The estimated impairment is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Retail loans with common features and which are not individually significant

Impairment of retail loans is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Impaired loans are written off only when all legal and other avenues for recovery or settlement are exhausted.

The carrying amount of loans, advances, Islamic financing and investing assets is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement: and either:
 - the Group has transferred substantially all the risks and rewards of the asset, or
 - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations and goodwill continued

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Property, fixtures and equipment

Property, fixtures and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying amounts are reviewed at each statement of financial position date to assess whether they are recorded in excess of their recoverable amount and, where carrying values exceed the recoverable amount, assets are written down. Land is measured at fair value. Valuations are performed frequently to ensure that the fair value of revalued land does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

Depreciation is provided on a straight-line basis on all property and equipment, other than freehold land which is determined to have an indefinite life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Motor vehicles	4 years
Furniture, fixtures and equipment	3-5 years
Computer hardware and software	3-4 years

Capital work-in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the statement of financial position date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Reinsurance contracts held

In order to minimize financial exposure from large claims, the Group enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to receivables arising from insurance and reinsurance companies.

At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policy holders.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire when the contract is transferred to another party.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial liabilities that require delivery of liabilities within the time frame generally established by regulation or convention in the market place.

Financial liabilities, including customers' deposits, due to banks, wakala deposits, term loans and other payables are initially measured at fair value, net of transaction costs.

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (“Repo”) are not derecognised. The counterparty liability for amounts received under these agreements is included in term loans in the consolidated statement of financial position, as appropriate. The difference between the sale and repurchase price is treated as interest expense which is accrued over the life of the repo agreement using the effective interest rate.

Operating segment reporting

An operating segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments and whose operating results are regularly reviewed by the Group's Chief Operating decision maker to make decisions about allocation of resources and assess its performance.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the party or not.

Employees' end of service benefits

The Group provides end of service benefits for its employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its U.A.E. national employees, the Group makes contributions to the relevant government pension scheme, calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates of exchange ruling at the consolidated statement of financial position date. Any resultant gains and losses are recognised in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Fair values

For investments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities. The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving such investments, current market value of instruments which are substantially the same, or is based on the expected discounted cash flows.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of unquoted investments is determined by reference to discounted cash flows, pricing models, net asset base of investee companies or broker over-the-counter quotes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Recognition of income and expenses

Interest

For all financial instruments measured at amortised cost and interest bearing financial instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income is suspended and not recognised.

Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Murabaha

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a

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

Ijara

Ijara income is recognised on a time apportioned basis over the lease term.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, income is suspended and not recognised.

Income on balances with financial institutions

Income on balances with financial institutions is calculated, on account, based on the expected/anticipated profit rates net of relevant fees and expenses.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Recognition of income and expenses continued

Contract revenue

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the surveys of work performed and completion of a physical proportion of the contracts. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Insurance income

Insurance contract

Insurance contracts are those contracts where the Group has accepted significant insurance risk from another party (the “policyholders”) by agreeing to compensate the policyholders if a specified uncertain future event (the “insured event”) adversely affects the policyholders.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Premiums earned

Premiums written are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired periods of coverage.

Commissions earned

Profit commission is accounted for as and when received while other commissions are accounted for when earned.

Claims

Claims comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group.

The Group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

The Group does not discount its liability for unpaid claims as these are expected to be settled within one year of reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Consolidation of investees

The Group consolidates an investee from the date the Company obtained control of the investee and ceases to consolidate when the Company loses the control.

The Group establishes control over an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Classification of properties

Management decides, on acquisition of a property, whether it should be classified as investment property, property and equipment or as property held for sale.

Properties acquired by the Group are recorded as investment properties if these were acquired for rental purposes or capital appreciation.

Properties held for own use are recorded as property, fixtures and equipment.

Properties are recorded as held for sale if their carrying amounts will be recovered through a sale transaction.

Classification of investments

The Group classifies investments as fair value through profit and loss if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit and loss depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit and loss in the management accounts, they are classified as fair value through profit and loss.

Equity investments not held for trading can be designated as being measured at fair value through other comprehensive income at initial recognition.

Investments are classified at amortised cost only if the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount.

Impairment losses on loans, advances and Islamic financing and investing assets

The Group reviews its problematic loans, advances and Islamic financing and investing portfolio on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans, advances and Islamic financing and investing assets

In addition to specific provisions against individually significant loans, advances and Islamic financing and investing assets, the Group also makes a collective impairment provision against loans, advances and Islamic financing and investing assets which, although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for loans and advances and is adjusted to reflect current economic changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Contract cost estimates

When the outcome of a construction contract can be estimated reliably, revenues and costs are recognised by reference to stage of completion of the contract activity at the end of the reporting period. In judging whether the outcome of the construction contract can be estimated reliably, management has considered the detailed criterion for determination of such outcome as set out in IAS 11 'Construction Contracts'. For the purpose of estimating the stage of completion of contract activity, management has considered the forecasts for revenue and costs related to each construction contract. When it is estimated that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Management has considered the costs to be incurred based on analysis and forecast of construction work to be executed.

Fair value of unquoted investments

As described in note 33, the management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Such financial instruments are valued using discounted cash flow and capitalisation of sustainable earnings analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unquoted shares includes some assumptions not supported by observable market prices or rates. Details of assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 33.

Provision for outstanding claims

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Group's internal legal counsel normally estimate such claims. Management reviews its provisions for claims incurred on a quarterly basis.

Reinsurance

The Group is exposed to disputes with, and possibility of defaults by its reinsurers. The Group monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

2.7 DEFINITIONS

The following terms are used in the financial statements with the meaning specified:

Commodities Murabaha

A selling contract for commodities at the purchase price with a defined and agreed profit mark-up. The mark-up may be a percentage of the purchase price or a fixed amount.

Istisna'a

A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.7 DEFINITIONS continued

Ijara

A lease agreement whereby the Group (as lessor) leases an asset to the Customer (as lessee), after purchasing/acquiring the specified asset according to the customer's request and promise to lease, either from a third party seller or from the customer itself, against certain rental payments for specified lease term/periods. Whereas, upon fulfillment of all the obligations by the customer (lessee) under the lease agreement, the ownership of the subject asset is transferred from the Group (lessor) to the customer (lessee).

Sukuk

In the content of these notes, these comprise Sharia'a compliant financial instruments representing debt under Murabaha contracts.

Wakala

An agreement between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3 BUSINESS COMBINATIONS

Acquisition of Islamic Finance House PJSC

During February 2011, Islamic Finance House PJSC applied for the early conversion of its sukuk amounting to AED 65 million out of which sukuk amounting to AED 55 million were held by the Company. The Company acquired 47.83% of the voting shares of Islamic Finance House PJSC through conversion of its sukuk in April 2011.

The Company has voluntarily adopted IFRS 10 effective 1 January 2012 establishing 'de facto' control over Islamic Finance House PJSC retrospectively from the date of acquisition and accordingly, Islamic Finance House PJSC has been consolidated in the consolidated financial statements of the Group retrospectively from April 2011. The principal activity of the subsidiary is to provide Islamic financing services.

The fair value of the identifiable assets and liabilities of Islamic Finance House PJSC as at the date of acquisition were:

	<i>Fair value amounts AED '000</i>
Cash and cash equivalents	159,139
Due from banks and other financial institutions maturing after three months	22,500
Islamic financing and investing assets	38,539
Investments carried at fair value through other comprehensive income	6,130
Investments carried at fair value through profit and loss	579
Receivables and other assets	1,599
Property and equipment	<u>1,262</u>
Total assets	<u>229,748</u>
Customers' deposits	(95,300)
Other liabilities	(33,275)
Provision for employees' end of service benefits	<u>(200)</u>
Total liabilities	<u>(128,775)</u>
Total identifiable net assets	100,973
Non-controlling interests	<u>(52,678)</u>
Total identifiable net assets acquired	<u>48,295</u>
Goodwill on acquisition	<u>6,705</u>
Consideration on acquisition being the value of converted sukuk	<u>55,000</u>
Cash inflow on acquisition is as follows:	
Consideration paid	-
Cash acquired with Islamic Finance House PJSC	<u>159,139</u>
Net cash inflow	<u>159,139</u>

Finance House P.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3 BUSINESS COMBINATIONS continued

Acquisition of Finance House Securities Company L.L.C

On 1 July 2011, the Company acquired an additional 55% of the voting shares of Finance House Securities Company L.L.C (formerly known as Gulf National Securities Center L.L.C.) increasing its total ownership to 65%. The principal activity of the subsidiary is to act as broker for buying and selling local stocks and bonds and has a branch in Abu Dhabi.

The fair value of the identifiable assets and liabilities of Finance House Securities Company L.L.C as at the date of acquisition were:

	<i>Fair value amounts AED '000</i>
Cash and cash equivalents	15,147
Fixed deposits with banks	7,647
Trade and other receivables	23,152
Other current assets	485
Property and equipment	<u>1,295</u>
Total assets	<u>47,726</u>
Trade and other payables	(13,050)
End of service benefits obligation	<u>(480)</u>
Total liabilities	<u>(13,530)</u>
Total identifiable net assets	34,196
Non-controlling interests	<u>(11,969)</u>
Total identifiable net assets acquired	<u>22,227</u>
Value of investment in Finance House Securities Company L.L.C directly before achieving control	3,420
Additional consideration paid	16,199
Gain on acquisition of a subsidiary	<u>2,608</u>
	<u>22,227</u>
Cash outflow on acquisition is as follows:	
Consideration paid	(16,199)
Cash acquired with Finance House Securities Company L.L.C	<u>15,147</u>
Net cash outflow	<u>(1,052)</u>

Finance House P.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

4 CASH AND CASH EQUIVALENTS

	2012	<i>Restated</i>
	AED'000	2011
		AED'000
Current and demand accounts	60,376	22,045
Fixed placements	963,538	786,262
Wakala deposits with banks	-	2,500
Call accounts	29,721	11,199
Other bank balances	<u>-</u>	<u>1,667</u>
Due from banks	1,053,635	823,673
Cash balances	8,395	7,273
Due to banks with original maturity of less than three months	(184,567)	(51,666)
Due from banks maturing with original maturity of more than three months	<u>(278,389)</u>	<u>(253,187)</u>
Net cash and cash equivalents	<u>599,074</u>	<u>526,093</u>

Fixed placements with banks of AED 278,389 thousand (2011: AED 253,187 thousand) and due to banks of AED 105,418 thousand (2011: AED 371,284 thousand) are due to mature after three months from the date of placement and are not included in cash and cash equivalents.

5 INVESTMENTS

	<i>At fair value through OCI</i>	<i>At fair value through profit or loss</i>	<i>At amortized cost</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
2012				
Equity instruments:				
- Quoted	78,562	50,053	-	128,615
- Unquoted	148,131	-	-	148,131
Debt Instruments:				
- Quoted - fixed rate	-	255,287	-	255,287
Investment in managed funds	<u>15,669</u>	<u>-</u>	<u>-</u>	<u>15,669</u>
	<u>242,362</u>	<u>305,340</u>	<u>-</u>	<u>547,702</u>
UAE	228,724	93,752	-	322,476
Outside UAE	<u>13,638</u>	<u>211,588</u>	<u>-</u>	<u>225,226</u>
	<u>242,362</u>	<u>305,340</u>	<u>-</u>	<u>547,702</u>
2011 (restated)				
Equity instruments:				
- Quoted	113,388	38,977	-	152,365
- Unquoted	146,237	-	-	146,237
Debt instruments:				
- Quoted - fixed rate	-	-	556,180	556,180
Investment in managed funds	<u>15,539</u>	<u>-</u>	<u>-</u>	<u>15,539</u>
	<u>275,164</u>	<u>38,977</u>	<u>556,180</u>	<u>870,321</u>
UAE	260,561	38,977	357,515	657,053
Outside UAE	<u>14,603</u>	<u>-</u>	<u>198,665</u>	<u>213,268</u>
	<u>275,164</u>	<u>38,977</u>	<u>556,180</u>	<u>870,321</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

5 INVESTMENTS continued

The Group enters into asset repurchase transactions whereby it retains substantially all of the risks and rewards of ownership of the assets and accordingly, the assets are not derecognized from the consolidated statement of financial position. The Group has entered into repurchase agreements relating to investments carried at fair value through profit or loss amounting to AED 67,874 thousand (2011: investments carried at amortised cost amounting to AED 304,129 thousand). The related liability amounting to AED 56,295 thousand (2011: AED 236,510 thousand) is included in term loans.

6 LOANS AND ADVANCES, NET

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Commercial loans	1,267,289	1,062,792
Retail finance	<u>298,008</u>	<u>308,249</u>
	1,565,297	1,371,041
Less: allowance for impairment		
Specific	(170,765)	(149,242)
Collective	<u>(15,747)</u>	<u>(12,942)</u>
	<u>1,378,785</u>	<u>1,208,857</u>

Loans and advances are stated net of allowance for impairment. The movement in the allowance during the year is as follows:

At 1 January	162,184	154,815
Charge for the year, net	35,153	7,369
Written off during the year	<u>(10,825)</u>	-
At 31 December	<u>186,512</u>	<u>162,184</u>

7 ISLAMIC FINANCING AND INVESTING ASSETS

	<i>2012</i> <i>AED'000</i>	<i>Restated</i> <i>2011</i> <i>AED'000</i>
Commodities Murabaha	35,242	42,501
Covered card and drawings	19,239	9,819
Purchase & lease back	12,403	9,408
Ijarah	13,298	2,223
Istissna	<u>-</u>	<u>5,560</u>
	80,182	69,511
Less: allowance for impairment		
Specific	(1,339)	(428)
Collective	<u>(548)</u>	<u>(249)</u>
	<u>78,295</u>	<u>68,834</u>

Finance House P.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

7 ISLAMIC FINANCING AND INVESTING ASSETS continued

Islamic financing and investing assets are stated net of allowance for impairment. The movement in the allowance during the year is as follows:

	<i>2012</i> <i>AED'000</i>	<i>Restated</i> <i>2011</i> <i>AED'000</i>
At 1 January	677	-
Charge for the year	<u>1,210</u>	<u>677</u>
At 31 December	<u>1,887</u>	<u>677</u>

The gross Ijara and purchase and leaseback and the related present value of minimum Ijara and purchase and leaseback payments are as follows:

	<i>2012</i> <i>AED'000</i>	<i>Restated</i> <i>2011</i> <i>AED'000</i>
Gross Ijara and purchase & lease back		
Less than one year	8,287	4,239
Between one and three years	12,298	7,671
Between three and five years	6,745	755
More than five years	<u>4,774</u>	<u>1,750</u>
	32,104	14,415
Less: deferred income	<u>(6,403)</u>	<u>(2,784)</u>
Net Ijara and purchase and lease back	<u>25,701</u>	<u>11,631</u>
Net present value of minimum Ijara and purchase & lease back payments		
Less than one year	6,272	3,305
Between one and three years	9,660	6,610
Between three and five years	5,486	525
More than five years	<u>4,283</u>	<u>1,191</u>
	<u>25,701</u>	<u>11,631</u>

8 INVESTMENT IN ASSOCIATES

The Group has the following investments in associates

	<i>2012</i>	<i>Percentage of holding</i> <i>Restated</i> <i>2011</i>
Mainland Management L.L.C.	33.33%	33.33%
Universal Hospital L.L.C.	30.00%	30.00%

Mainland Management L.L.C. is incorporated in the U.A.E. and provides hospitality management services.

Universal Hospital L.L.C. is incorporated in the U.A.E. and owns and manages a hospital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8 INVESTMENT IN ASSOCIATES continued

Summarised financial information on investment in associates is set out below.

	<i>2012</i> <i>AED 000</i>	<i>Restated</i> <i>2011</i> <i>AED 000</i>
<i>Associates' statement of financial position</i>		
Assets	316,894	310,808
Liabilities	(196,663)	(166,218)
Net assets	<u>120,231</u>	<u>144,590</u>
Group's share of net assets	39,296	47,381
Goodwill arising on acquisition	<u>3,859</u>	<u>3,859</u>
Carrying amount of investment in associates	<u>43,155</u>	<u>51,240</u>
<i>Associates' revenue and loss:</i>		
Revenue	<u>15,660</u>	<u>10,906</u>
Loss for the year	<u>(24,508)</u>	<u>(14,385)</u>
Group's share of net loss for the year	<u>(8,085)</u>	<u>(788)</u>

9 GOODWILL

Goodwill acquired through business combinations relates to the following subsidiaries:

	<i>Islamic</i> <i>Finance House PJSC</i>		<i>Third Vision</i> <i>Investment L.L.C</i>		<i>Total</i> <i>Restated</i>	
	<i>2012</i> <i>AED '000</i>	<i>2011</i> <i>AED '000</i>	<i>2012</i> <i>AED '000</i>	<i>2011</i> <i>AED '000</i>	<i>2012</i> <i>AED '000</i>	<i>2011</i> <i>AED '000</i>
Goodwill	<u>6,705</u>	<u>6,705</u>	<u>4,973</u>	<u>4,973</u>	<u>11,678</u>	<u>11,678</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

9 GOODWILL continued

Impairment testing of goodwill

The Group performs its impairment testing annually on 31 December.

Goodwill relating to Islamic Finance House PJSC

Goodwill arising on the acquisition of Islamic Finance House PJSC has been allocated to the subsidiary as a cash generating unit. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

During the year the Group has performed a goodwill impairment review based on a forecast of the subsidiary's cash flows. The recoverable amount of the cash generating unit was estimated on the basis of its value in use, which is determined by discounting future cash flows from the continuing operation of the cash generating unit. The discount rate applied to the cash flow projections is 20% and the growth rate used to extrapolate the cash flows beyond the five year period is 3%. Based on the results of the goodwill impairment assessment the Group has concluded that the recoverable amount of the cash generating unit is higher than its carrying value.

Goodwill relating to Third Vision Investment L.L.C

Goodwill arising on the acquisition of Third Vision Investment L.L.C. has been allocated to the subsidiary as a cash generating unit. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

During the year the Group has performed a goodwill impairment review based on fair value less cost to sell. The Group estimated the fair values of the net assets of the subsidiary which primarily consist of land and property under development and some other assets and liabilities. The fair value of land and property under development has been determined with reference to the valuation performed by an accredited independent valuer using market approach which is a valuation technique that estimates the fair value of assets based on market prices in actual transactions and on asking prices for assets currently available for sale less any related cost to sell the assets. Based on the results of this analysis, the Group has concluded that the recoverable amount of the cash generating unit is higher than its carrying value.

10 STATUTORY DEPOSIT

In accordance with the requirement of Federal Law No.6 of 2007, concerning Insurance Companies and Agents, the Group maintains a bank deposit amounting to AED 6,000 thousand (2011: AED 6,000 thousand) and it cannot be utilized without the consent of the UAE Insurance Authority.

Finance House P.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

11 PROPERTY, FIXTURES AND EQUIPMENT

	<i>Freehold land AED'000</i>	<i>Furniture fixtures and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Computer hardware and software AED'000</i>	<i>Capital work in progress AED'000</i>	<i>Total AED'000</i>
2012						
Cost or valuation						
At 1 January 2012	85,667	31,327	6,728	19,449	72,534	215,705
Additions during the year	-	3,426	453	1,910	63,282	69,071
Disposals	-	-	(299)	-	-	(299)
At 31 December 2012	<u>85,667</u>	<u>34,753</u>	<u>6,882</u>	<u>21,359</u>	<u>135,816</u>	<u>284,477</u>
Accumulated depreciation:						
At 1 January 2012	-	22,705	4,398	15,073	-	42,176
Charge for the year	-	4,548	717	1,844	-	7,109
Relating to disposals	-	-	(299)	-	-	(299)
At 31 December 2012	-	<u>27,253</u>	<u>4,816</u>	<u>16,917</u>	-	<u>48,986</u>
Net book value:						
At 31 December 2012	<u>85,667</u>	<u>7,500</u>	<u>2,066</u>	<u>4,442</u>	<u>135,816</u>	<u>235,491</u>
2011						
Cost or valuation						
At 1 January 2011	85,667	28,695	5,324	15,817	18,874	154,377
Acquired on acquisition of subsidiaries – restated (note 3)	-	141	1,084	1,332	-	2,557
Additions during the year - restated	-	2,491	320	2,300	53,660	58,771
At 31 December 2011 - restated	<u>85,667</u>	<u>31,327</u>	<u>6,728</u>	<u>19,449</u>	<u>72,534</u>	<u>215,705</u>
Accumulated depreciation:						
At 1 January 2011	-	18,318	3,462	13,178	-	34,958
Charge for the year - restated	-	4,387	936	1,895	-	7,218
At 31 December 2011 - restated	-	<u>22,705</u>	<u>4,398</u>	<u>15,073</u>	-	<u>42,176</u>
Net book value:						
At 31 December 2011 - restated	<u>85,667</u>	<u>8,622</u>	<u>2,330</u>	<u>4,376</u>	<u>72,534</u>	<u>173,529</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

11 PROPERTY, FIXTURES AND EQUIPMENT continued

The freehold land is a plot of land purchased by the Group on which the Group intends to build its premises.

Capital work in progress mainly pertains to the construction of the office premises on the freehold plot of land.

The fair value of land represents management's best estimate of the fair value as of the statement of financial position date with reference to the valuation performed by an accredited independent valuer with a recognized and relevant professional qualification and recent experience in the location and category of the land being valued.

12 INVESTMENT PROPERTY

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
At 1 January	87,599	71,365
Additions during the year	4,964	16,234
Gain on fair valuation of investment property	<u>9,000</u>	<u>-</u>
At 31 December	<u>101,563</u>	<u>87,599</u>

Investment properties are stated at fair value, which represents management's best estimate of the fair value of investment properties as of the statement of financial position date with reference to the valuation performed by an accredited independent valuer with a recognized and relevant professional qualification and recent experience in the location and category of investment properties being valued.

13 INTEREST RECEIVABLE AND OTHER ASSETS

	<i>2012</i> <i>AED'000</i>	<i>Restated</i> <i>2011</i> <i>AED'000</i>
Interest receivable	54,383	70,841
Profit receivable (i)	1,104	1,348
Prepayments	18,400	20,148
Accounts receivable, net of provision for impairment (ii)	70,245	37,419
Amounts due from customers under construction contracts (note 30)	25,991	48,080
Insurance receivables	22,756	5,428
Re-insurance contract assets	6,271	936
Advance for investments (iii)	42,733	-
Amount due from related parties	-	212
Other assets	<u>15,483</u>	<u>13,547</u>
	<u>257,366</u>	<u>197,959</u>

(i) Profit receivable relates to the Wakala deposits with banks and financial institutions, Islamic financing and investing assets and Murabaha agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

13 INTEREST RECEIVABLE AND OTHER ASSETS continued

- (ii) As at 31 December 2012, accounts receivable at nominal value of AED 6,683 (2011: AED 8,986) were impaired, and fully provided for.

As at 31 December 2012, the ageing analysis of accounts receivable is as follows:

	<i>Total AED</i>	<i>Neither past due nor impaired AED</i>	<i>Past due but not impaired</i>			
			<i>< 30 days AED</i>	<i>30 – 60 days AED</i>	<i>60 – 90 days AED</i>	<i>>120 days AED</i>
2012	70,245	40,102	13,778	401	1,266	14,698
2011	37,419	18,933	3,419	443	-	14,624

- (iii) Advance for investments represents amounts paid to acquire 65% shareholding in an entity, CapM Investments PJSC. As of 31 December 2012, the Group is in the process of finalizing the legal formalities relating to the transfer of shares.

14 CUSTOMERS' DEPOSITS

	<i>2012 AED'000</i>	<i>Restated 2011 AED'000</i>
Call and demand deposits	65,111	69,683
Time deposits	1,593,290	1,478,234
Wakala deposits	<u>145,270</u>	<u>513</u>
	<u>1,803,671</u>	<u>1,548,430</u>

Analysis of customers' deposits by sector is as follows:

	<i>2012 AED'000</i>	<i>2011 AED'000</i>
Government	673,351	437,582
Corporate	<u>1,130,320</u>	<u>1,110,848</u>
	<u>1,803,671</u>	<u>1,548,430</u>

15 TERM LOANS

	<i>2012 AED'000</i>	<i>2011 AED'000</i>
From local commercial banks (i)	90,000	101,173
From international commercial banks (ii)	<u>138,831</u>	<u>307,027</u>
	<u>228,831</u>	<u>408,200</u>

- (i) Term loans with local commercial banks carry interest at market rates and are repayable within one year from the statement of financial position date. The term loans are unsecured.
- (ii) Term loans with international commercial banks carry interest at market rates and are repayable within one year from the statement of financial position date. The term loans are secured against the Group's investment in debt instruments (note 5).

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16 INTEREST PAYABLE AND OTHER LIABILITIES

	<i>2012</i>	<i>Restated</i>
	<i>AED'000</i>	<i>2011</i>
		<i>AED'000</i>
Interest payable	12,587	14,426
Profit payable	582	228
Trade payables	26,184	4,376
Accrued expenses	67,171	54,147
Margin accounts	353,163	298,578
Unearned premiums	30,615	8,194
Gross claims outstanding	10,976	1,711
Other liabilities	<u>111,081</u>	<u>104,192</u>
	<u>612,359</u>	<u>485,852</u>

17 NON CONVERTIBLE SUKUK

In June 2012, the Company raised financing by way of a Shari'a compliant subordinated sukuk issued by Finance House Sukuk Company 1 (the issuer and a special purpose vehicle) amounting to AED 150 million and maturing in June 2017. The sukuk carries a profit rate of 6 months EIBOR plus 3.00% or 6.25% per annum whichever is higher, payable semi annually as periodic distribution amount. Profit distribution accrued as of 31 December 2012 relating to sukuk held by external parties amounted to AED 112 thousand. Sukuk amounting to AED 21.4 million were held by subsidiaries of the Group and, accordingly, were eliminated in the consolidated statement of financial position.

18 SHARE CAPITAL

	<i>Issue and fully paid</i>	
	<i>2012</i>	<i>2011</i>
	<i>AED'000</i>	<i>AED'000</i>
<i>Authorised, issued and fully paid</i>		
302.5 million shares (2011: 302.5 million shares)		
of AED 1 each (31 December 2011: AED 1 each)	<u>302,500</u>	<u>302,500</u>

In the annual general meeting held on 21 March 2011, the shareholders approved the distribution of bonus shares equal to 10% of the nominal value of the shares in a ratio of one bonus share against every ten shares held amounting to AED 27,500 thousand.

19 EMPLOYEES' SHARE-BASED PAYMENT SCHEME

The share-based payment scheme is administered by a trustee and gives the Board of Directors the authority to determine which employees of the Group will be granted the shares. The values of shares granted to employees are expensed in the period in which they are granted, and that of the remaining shares are included within shareholders' equity.

During the year, nil shares (2011: nil shares) were granted to employees and outstanding shares not yet granted to employees as of 31 December 2012 were 1,750 thousand (31 December 2011: 1,750 thousand).

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20 STATUTORY RESERVE

In line with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984, (as amended) and the Company's Articles of Association, the Company is required to transfer annually to a statutory reserve account an amount equivalent to 10% of its profit, until such reserve reaches 50% of the share capital of the Company. The statutory reserve is not available for distribution.

21 DIVIDEND

In 2012, a dividend of AED 20 fils per share (total dividend AED 60,500 thousand) was paid to holders of fully paid ordinary shares. In 2011, the dividend paid was 15 fils per share (total dividend AED 41,250 thousand).

22 TREASURY SHARES

Treasury shares represent the cost of 1,219,357 shares of the Company held by a subsidiary as at 31 December 2012 (2011: 1,060,513 shares).

23 COMMITMENTS AND CONTINGENT LIABILITIES

The Group provides letters of credit and financial guarantees on behalf of customers to third parties. These agreements have fixed limits and are generally for a certain period of time.

Capital commitments represent future capital expenditures that the Group has committed to spend on assets over a period of time.

Irrevocable commitments to extend credit represent contractual irrevocable commitments to make loans and revolving credits.

The Group had the following commitments and contingent liabilities outstanding at year end:

	<i>2012</i>	<i>Restated</i>
	<i>AED'000</i>	<i>2011</i>
		<i>AED'000</i>
Letters of credit	62,176	55,103
Letters of guarantee	858,612	804,495
Capital commitments	70,837	102,705
Irrevocable commitments to extend credit	<u>88,789</u>	<u>83,680</u>
	<u>1,080,414</u>	<u>1,045,983</u>

All financial guarantees were issued in the ordinary course of business.

Finance House P.S.C.

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24 NET INTEREST INCOME

	<i>2012</i> <i>AED'000</i>	<i>Restated</i> <i>2011</i> <i>AED'000</i>
Interest income		
Due from banks	27,008	29,312
Loans and advances	138,490	139,834
Others	<u>20,078</u>	<u>12,606</u>
	<u>185,576</u>	<u>181,752</u>
Interest expense		
Customer deposits	(50,762)	(47,830)
Due to banks	<u>(12,569)</u>	<u>(13,572)</u>
	<u>(63,331)</u>	<u>(61,402)</u>
Net interest income	<u>122,245</u>	<u>120,350</u>

No interest income is recognised on impaired loans and advances.

25 NET FEE AND COMMISSION INCOME

	<i>2012</i> <i>AED'000</i>	<i>Restated</i> <i>2011</i> <i>AED'000</i>
Fee and commission income		
Corporate and commercial finance activities	12,705	15,368
Retail finance activities	<u>26,299</u>	<u>21,049</u>
	<u>39,004</u>	<u>36,417</u>
Fee and commission expense	<u>(10,079)</u>	<u>(12,567)</u>
Net fee and commission income	<u>28,925</u>	<u>23,850</u>

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26 NET INSURANCE INCOME

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Net insurance premiums earned		
Gross premiums written	55,173	12,826
Change in unearned premium provision	<u>(19,869)</u>	<u>(5,957)</u>
Premium income earned	<u>35,304</u>	<u>6,869</u>
Re-insurance premiums ceded	(13,456)	(2,436)
Change in re-insurance portion of unearned premium provision	<u>5,335</u>	<u>936</u>
Re-insurance premium ceded	<u>(8,121)</u>	<u>(1,500)</u>
	<u>27,183</u>	<u>5,369</u>
Net insurance claims incurred		
Claims paid	(21,817)	(747)
Outstanding claims expenses	(9,266)	(1,710)
Movements in reserves	(1,998)	(2,202)
Claims recovered from re-insurers	<u>13,364</u>	<u>-</u>
	<u>(19,717)</u>	<u>(4,659)</u>
Net insurance commission expense		
Insurance commission income	1,037	112
Insurance commission expense	<u>(8,219)</u>	<u>(1,821)</u>
	<u>(7,182)</u>	<u>(1,709)</u>
Net insurance income (loss)	<u>284</u>	<u>(999)</u>

27 NET INCOME (LOSS) FROM INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

	<i>2012</i> <i>AED'000</i>	<i>Restated</i> <i>2011</i> <i>AED'000</i>
Gain (loss) on disposal of investments carried at fair value through profit and loss	11,441	(3,864)
Unrealised gain (loss) on investments carried at fair value through profit and loss	12,759	(3,302)
Dividends on investments carried at fair value through profit and loss	<u>792</u>	<u>602</u>
Net income (loss) from investments carried at fair value through profit and loss	<u>24,992</u>	<u>(6,564)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

28 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares. As of 31 December 2012, the Company has not issued any instruments which would have a dilutive impact on earnings per share when converted or exercised.

The calculation of basic and diluted earnings per share is based on the following data:

	<i>2012</i>	<i>Restated 2011</i>
Profit for the year attributable to equity holders of the parent (AED '000)	<u>67,667</u>	<u>62,229</u>
Number of ordinary shares in issue ('000)	302,500	302,500
Less: Treasury shares ('000)	(1,219)	(1,061)
Less: Employees' share-based payment scheme ('000)	<u>(1,750)</u>	<u>(1,750)</u>
	<u>299,531</u>	<u>299,689</u>
Earnings per share (AED)	<u>0.23</u>	<u>0.21</u>

29 RELATED PARTY TRANSACTIONS

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

The year end balances in respect of related parties included in the statement of financial position are as follows:

	<i>2012 AED'000</i>	<i>Restated 2011 AED'000</i>
<i>Loans and advances to customers</i>		
To key management staff	<u>166</u>	<u>197</u>
<i>Customers' deposits</i>		
From associates	<u>261</u>	<u>-</u>
From others	<u>926</u>	<u>768</u>
Significant transactions with related parties during the year were as follows:		
<i>Contract revenue</i>		
From others	<u>79,159</u>	<u>65,817</u>
<i>Interest and commission income</i>		
From associates	<u>1</u>	<u>-</u>
From key management	<u>5</u>	<u>12</u>
<i>Interest expense</i>		
To associates	<u>5</u>	<u>35</u>
To others	<u>-</u>	<u>6</u>
<i>Key management remuneration</i>		
Short term benefits (salaries, benefits and bonuses)	<u>17,956</u>	<u>16,892</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

30 CONSTRUCTION CONTRACTS

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Construction costs incurred plus recognized profits		
less recognised losses to date	668,270	519,204
Less : Progress billings to date	<u>642,279</u>	<u>471,124</u>
	<u>25,991</u>	<u>48,080</u>
Recognised and included in the consolidated financial statements as amounts due from customers under construction contracts (Note 13)	<u>25,991</u>	<u>48,080</u>

At 31 December 2012, retentions held by customers for contract work amounted to AED 15,465 thousand (2011: AED 18,285 thousand). Advances received from customers for contract work amounted to AED 11,888 thousand (2011: AED 23,869 thousand).

31 SEGMENTAL INFORMATION

For management purposes, the Group is organised into six major business segments:

- (i) Commercial and retail financing, which principally provides loans and other credit facilities for institutional and individual customers.
- (ii) Investment, which involves the management of the Group's investment portfolio and its treasury activities.
- (iii) Islamic financing and investing, which involves one of the Group's subsidiaries principally providing investment, consumer and commercial financing and other related services based on Islamic Sharia's rules and principles.
- (iv) Insurance, which involves one of the Group's subsidiaries providing non-life insurance services.
- (v) Construction, which involves the Group's subsidiaries performing real estate construction related activities.
- (vi) Brokerage, which involves one of the Group's subsidiaries providing brokerage services.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

Finance House P.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

31 SEGMENTAL INFORMATION continued

31.1 Products and services from which reportable segments derive their revenues

Information regarding the Group's reportable segments is presented below:

	<i>Year ended 31 December 2012</i>							
	<i>Commercial and retail financing AED'000</i>	<i>Investment AED'000</i>	<i>Islamic financing and investing AED'000</i>	<i>Construction AED'000</i>	<i>Brokerage AED'000</i>	<i>Insurance AED'000</i>	<i>Unallocated AED'000</i>	<i>Total AED'000</i>
Interest income	159,384	19,043	615	-	-	6,534	-	185,576
Interest expense	(52,664)	(10,667)	-	-	-	-	-	(63,331)
Contract revenue	-	-	-	112,028	-	-	-	112,028
Contract cost	-	-	-	(109,293)	-	-	-	(109,293)
Share of loss in associates	-	(8,085)	-	-	-	-	-	(8,085)
Net insurance premiums earned	-	-	-	-	-	27,183	-	27,183
Net insurance claims incurred	-	-	-	-	-	(19,717)	-	(19,717)
Net insurance commission expense	-	-	-	-	-	(7,182)	-	(7,182)
Income from Islamic financing and investing assets	-	-	8,260	-	-	-	-	8,260
Profit distributable to depositors	-	-	(1,828)	-	-	-	-	(1,828)
Profit distributable to sukuk holders	-	-	(4,130)	-	-	-	-	(4,130)
Other operating income	<u>1,152</u>	<u>100,076</u>	<u>6,813</u>	<u>815</u>	<u>2,500</u>	<u>12,597</u>	<u>-</u>	<u>123,953</u>
Total operating income	<u>107,872</u>	<u>100,367</u>	<u>9,730</u>	<u>3,550</u>	<u>2,500</u>	<u>19,415</u>	<u>-</u>	<u>243,434</u>
Depreciation and amortization charges	-	-	(872)	(2,570)	(313)	(598)	(2,756)	(7,109)
Other expenses and charges	<u>(16,212)</u>	<u>(6,290)</u>	<u>(14,258)</u>	<u>(13,972)</u>	<u>(5,873)</u>	<u>(18,872)</u>	<u>(52,255)</u>	<u>(127,732)</u>
Total expenses and other charges	<u>(16,212)</u>	<u>(6,290)</u>	<u>(15,130)</u>	<u>(16,542)</u>	<u>(6,186)</u>	<u>(19,470)</u>	<u>(55,011)</u>	<u>(134,841)</u>
Profit (loss) for the year before impairment	<u>91,660</u>	<u>94,077</u>	<u>(5,400)</u>	<u>(12,992)</u>	<u>(3,686)</u>	<u>(55)</u>	<u>(55,011)</u>	<u>108,593</u>
Allowance for impairment of loans and advances, net	(35,153)	-	-	-	-	-	-	(35,153)
Allowance for impairment of Islamic financing and investing assets	-	-	(1,210)	-	-	-	-	(1,210)
Profit (loss) for the year after impairment	<u>56,507</u>	<u>94,077</u>	<u>(6,610)</u>	<u>(12,992)</u>	<u>(3,686)</u>	<u>(55)</u>	<u>(55,011)</u>	<u>72,230</u>
Segmental assets	<u>1,540,725</u>	<u>1,775,104</u>	<u>29,449</u>	<u>106,098</u>	<u>70,794</u>	<u>199,895</u>	<u>-</u>	<u>3,722,065</u>
Segmental liabilities	<u>1,261,129</u>	<u>1,245,732</u>	<u>162,928</u>	<u>183,257</u>	<u>42,079</u>	<u>175,882</u>	<u>-</u>	<u>3,071,007</u>
Additions to non-current assets during the year	<u>-</u>	<u>4,972</u>	<u>1,446</u>	<u>69</u>	<u>58</u>	<u>885</u>	<u>61,641</u>	<u>69,071</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

31 SEGMENTAL INFORMATION continued

31.1 Products and services from which reportable segments derive their revenues continued

	<i>Year ended 31 December 2011- Restated</i>							
	<i>Commercial and retail financing Restated AED'000</i>	<i>Investment Restated AED'000</i>	<i>Islamic financing and investing Restated AED'000</i>	<i>Construction Restated AED'000</i>	<i>Brokerage Restated AED'000</i>	<i>Insurance Restated AED'000</i>	<i>Unallocated Restated AED'000</i>	<i>Total Restated AED'000</i>
Interest income	161,750	14,505	3,368	-	-	2,129	-	181,752
Interest expense	(54,288)	(7,114)	-	-	-	-	-	(61,402)
Contract revenue	-	-	-	141,406	-	-	-	141,406
Contract costs	-	-	-	(127,283)	-	-	-	(127,283)
Share of loss in associates	-	(788)	-	-	-	-	-	(788)
Net insurance premiums earned	-	-	-	-	-	5,369	-	5,369
Net insurance claims incurred	-	-	-	-	-	(4,659)	-	(4,659)
Net insurance commission expense	-	-	-	-	-	(1,709)	-	(1,709)
Income from Islamic financing and investing assets	-	-	1,658	-	-	-	-	1,658
Profit distributable to depositors	-	-	(1,233)	-	-	-	-	(1,233)
Other operating income	<u>1,255</u>	<u>30,932</u>	<u>1,749</u>	<u>389</u>	<u>922</u>	<u>1,297</u>	<u>-</u>	<u>36,544</u>
Total operating income	<u>108,717</u>	<u>37,535</u>	<u>5,542</u>	<u>14,512</u>	<u>922</u>	<u>2,427</u>	<u>-</u>	<u>169,655</u>
Depreciation and amortization charges	-	-	(512)	(3,320)	(146)	(234)	(3,006)	(7,218)
Other expenses and charges	<u>(21,003)</u>	<u>(1,368)</u>	<u>(6,301)</u>	<u>(8,231)</u>	<u>(2,571)</u>	<u>(7,088)</u>	<u>(47,821)</u>	<u>(94,383)</u>
Total expenses and other charges	<u>(21,003)</u>	<u>(1,368)</u>	<u>(6,813)</u>	<u>(11,551)</u>	<u>(2,717)</u>	<u>(7,322)</u>	<u>(50,827)</u>	<u>(101,601)</u>
Profit (loss) for the year before impairment	<u>87,714</u>	<u>36,167</u>	<u>(1,271)</u>	<u>2,961</u>	<u>(1,795)</u>	<u>(4,895)</u>	<u>(50,827)</u>	<u>68,054</u>
Allowance for impairment of loans and advances, net	(7,369)	-	-	-	-	-	-	(7,369)
Allowance for impairment of Islamic financing and investing assets	<u>-</u>	<u>-</u>	<u>(677)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(677)</u>
Profit (loss) for the year after impairment	<u>80,345</u>	<u>36,167</u>	<u>(1,948)</u>	<u>2,961</u>	<u>(1,795)</u>	<u>(4,895)</u>	<u>(50,827)</u>	<u>60,008</u>
Segmental assets	<u>1,250,637</u>	<u>1,804,243</u>	<u>80,398</u>	<u>105,644</u>	<u>46,477</u>	<u>219,564</u>	<u>-</u>	<u>3,506,963</u>
Segmental liabilities	<u>1,120,782</u>	<u>1,377,768</u>	<u>42,310</u>	<u>169,810</u>	<u>14,075</u>	<u>147,365</u>	<u>-</u>	<u>2,872,110</u>
Additions to non-current assets during the year	<u>-</u>	<u>16,234</u>	<u>26</u>	<u>1,327</u>	<u>1,428</u>	<u>1,809</u>	<u>37,947</u>	<u>58,771</u>

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31 SEGMENTAL INFORMATION continued

31.1 Products and services from which reportable segments derive their revenues continued

Revenue reported above represents revenue generated from external customers. The inter-segment revenues and expenses have been eliminated in full.

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

- all assets are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

31.2 Geographical information

The Group primarily operates in the U.A.E. (country of domicile).

31.3 Information about major customers

There is no single customer accounting for more than 10% of the Group's revenues from external customers.

32 RISK MANAGEMENT

32.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

Risk management structure

In line with the best practice followed in world class financial institutions the overall risk management responsibility lies with the Board of Directors of the Group, under which there is a Board Investment and Credit Committee (BICC) comprising of six board members and the Chief Risk Officer who take responsibility for identifying and controlling the risks.

Board of Directors

The overall risk management responsibility lies with the Board of Directors of the Group. It provides the direction, strategy and oversight of all the activities through various committees.

Audit Committee

The Audit Committee comprises three independent members who represent the Board of Directors of the Group. The Audit Committee has the overall responsibility of assessing the internal audit findings, directing implementation of audit recommendations and overseeing the internal audit activities undertaken within the internal control environment and regulatory compliance framework of the Group. Duties and responsibilities of the Audit Committee are governed by a formally approved Audit Committee Charter which is in line with best practice and control governance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

32 RISK MANAGEMENT continued

32.1 Introduction continued

Asset Liability Committee

The asset liability management process is an act of planning, acquiring, and directing the flow of funds through an organization. The ultimate objective of this process is to generate adequate and stable earnings and to steadily build an organization's equity over time, while taking measured business risks. The Group has a well defined asset liability management policy duly describing the objective, role and function of the Asset Liability Committee which is the body within the Group that holds the responsibility to make strategic decisions to manage balance sheet related risks. The Asset Liability Committee, consisting of the Group's senior management, meets at least once a month.

Board Investment and Credit Committee

All major business proposals of clients are approved through the BICC. The BICC is a sub-committee of the Board of Directors. The approval process and the authorities vested with the BICC members are well defined in a credit policy manual. The policy manual enumerates various procedures to be followed by relationship managers in bringing relationships to the Group. Various aspects of the credit approval process have been defined in the policy which enables efficient approval of the proposals.

Risk Management Unit (RMU)

The RMU is an independent unit reporting to the General Manager. The RMU is responsible for identifying, measuring, monitoring and controlling the risks arising out of various activities in the Group by the different business units. The process is through partnering with the units in identifying and addressing the risks by setting limits and reporting on the utilization thereof.

The RMU also monitors compliance with the regulatory procedures and anti-money laundering monitoring procedures of the Group.

Treasury

Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Group.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Head of Internal Audit has direct reporting lines to the Audit Committee in order to secure independence and objectivity in all audit engagements undertaken within the Group.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the RMU, and the head of each business division. The report includes aggregate credit exposure, limit exceptions and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis. RMU receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

32 RISK MANAGEMENT continued

32.1 Introduction continued

Risk mitigation

As part of its overall risk management, the Group uses certain instruments to manage exposures resulting from changes in interest rates and foreign currencies.

The Group actively uses collateral to reduce its credit risks.

Risk concentration

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

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific industries or businesses.

Details of the composition of the loans, advances and Islamic financing and investing portfolio are provided in Note 6 and 7. Information on credit risk relating to investments is provided in Note 32.3.

32.2 Market risk

Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and prices of equity and fixed income securities.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities.

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in interest rates, with all other variables held constant, of the Group's result for the year.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2012.

	<i>Effect on profit</i> <i>AED 000</i>
2012	
+100 increase in basis point	4,768
-100 decrease in basis point	(4,768)
2011 (restated)	
+100 increase in basis point	(6,456)
-100 decrease in basis point	6,456

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32 RISK MANAGEMENT continued

32.2 Market risk continued

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and it is ensured these are maintained within established limits.

Foreign currency risk is limited since a significant proportion of the Group's transactions, monetary assets and liabilities are denominated in U.A.E. Dirhams and U.S. Dollars. As the U.A.E. Dirham is pegged to the U.S. Dollar, balances in U.S. Dollars are not considered to represent significant currency risk.

Price risk

Price risk is the risk that the fair values of equities and fixed income securities decrease as the result of changes in the levels of equity and fixed income indices and the value of individual instruments. The price risk exposure arises from the Group's investment portfolio.

The following table estimates the sensitivity to a possible change in equity and fixed income markets on the Group's income statement. The sensitivity of the income statement is the effect of the assumed changes in the reference equity and fixed income benchmarks on the fair value of investments carried at fair value through profit or loss.

	<i>Assumed level of change</i>	<i>Impact on net income</i>	<i>Impact on net income</i>
	%	2012	<i>Restated</i>
		AED 000	<i>2011</i>
			AED 000
Investments carried at fair value through profit or loss			
Abu Dhabi Securities Market Index	2%	644	544
Dubai Financial Market Index	2%	357	235
Fixed income securities	2%	5,106	-

The effect on equity (as a result of a change in the fair value of equity instruments carried at fair value through other comprehensive income at 31 December 2012) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows.

	<i>Assumed level of change</i>	<i>Impact on equity</i>	<i>Impact on equity</i>
	%	2012	<i>Restated</i>
		AED 000	<i>2011</i>
			AED 000
Investments carried at fair value through other comprehensive income			
Abu Dhabi Securities Market Index	2%	902	1,268
Dubai Financial Market Index	2%	633	945
Amman Stock Exchange	2%	36	54

The effect of decreases in prices of equity and fixed income securities is expected to be equal and opposite to the effect of the increases shown above.

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32 RISK MANAGEMENT continued**32.3 Credit risk**

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	<i>Gross maximum exposure</i>	<i>Gross maximum exposure Restated</i>
	<i>2012</i>	<i>2011</i>
	<i>AED 000</i>	<i>AED 000</i>
Balances with U.A.E. Central Bank	4,369	3,317
Due from banks and financial institutions	1,049,266	820,356
Loans and advances	1,378,785	1,208,857
Islamic financing and investing assets	78,295	68,834
Investments carried at amortised cost	-	556,180
Investments carried at fair value through profit and loss (Debt instruments)	255,287	-
Other assets	196,233	177,811
Contingent liabilities	920,788	859,598
Commitments	<u>88,789</u>	<u>83,680</u>
Total	<u>3,971,812</u>	<u>3,778,633</u>

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32 RISK MANAGEMENT continued**32.3 Credit risk** continued**Credit risk concentration**

Concentration of risk is managed by customer / counterparty, by geographical region and by industry sector. The funded and non funded credit exposure to the top 5 borrowers as of 31 December 2012 was AED 421,750 thousand (2011: AED 389,663 thousand) before taking account of collateral or other credit enhancements and AED 51,409 thousand (2011: AED 26,757 thousand) net of such protection, respectively.

The distribution of the Group's financial assets by geographic region and industry sector is as follows:

	<i>2012</i>	<i>Restated</i>
	<i>AED 000</i>	<i>2011</i>
		<i>AED 000</i>
<i>Geographic region</i>		
U.A.E.	2,833,965	2,625,617
Other Arab countries	1,018	519
Europe	3,591	3,269
U.S.A.	2,056	346
Rest of the world	<u>130,000</u>	<u>212,877</u>
Financial assets subject to credit risk	2,970,630	2,842,628
Other assets	<u>751,435</u>	<u>664,335</u>
Total assets	<u>3,722,065</u>	<u>3,506,963</u>
<i>Industry sector</i>		
Commercial and business	1,300,585	1,130,540
Personal	237,479	217,509
Banks and financial institutions	1,053,634	1,239,223
Others	<u>378,932</u>	<u>255,356</u>
Financial assets subject to credit risk	2,970,630	2,842,628
Other assets	<u>751,435</u>	<u>664,335</u>
Total assets	<u>3,722,065</u>	<u>3,506,963</u>

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory, trade receivables and securities
- For personal lending, against post dated cheques and security cheques

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses. Management estimates the fair value of collaterals and other credit enhancements held against individually impaired financing assets approximating to be AED 66,213 thousand as at 31 December 2012 (2011: AED 66,310 thousand).

It is the Group's policy to dispose of repossessed assets, other than investment properties, in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

32 RISK MANAGEMENT continued

32.3 Credit risk continued

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset, based on the Group's credit rating system. The amounts presented are net of impairment provisions.

	<i>Neither past due nor impaired</i>				<i>Past due or individually impaired</i>	<i>Total</i>
	<i>Pass grade</i>	<i>Watch grade</i>	<i>Sub-standard grade</i>	<i>grade</i>		
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
2012						
Cash and balances with U.A.E. Central Bank	12,764	-	-	-	-	12,764
Due from banks and financial institutions	1,049,266	-	-	-	-	1,049,266
Loans and advances	1,069,195	87,137	73,198	149,255	-	1,378,785
Islamic financing and investing assets	75,565	-	2,730	-	-	78,295
Investments carried at fair value through profit or loss (Debt instruments)	255,287	-	-	-	-	255,287
Other assets	<u>196,233</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>196,233</u>
Total	<u>2,658,310</u>	<u>87,137</u>	<u>75,928</u>	<u>149,255</u>	<u>-</u>	<u>2,970,630</u>
2011 (restated)						
Cash and balances with U.A.E. Central Bank	10,590	-	-	-	-	10,590
Due from banks and financial institutions	820,356	-	-	-	-	820,356
Loans and advances	924,127	26,214	101,016	157,500	-	1,208,857
Islamic financing and investing assets	68,034	-	721	79	-	68,834
Investments carried at amortised cost	556,180	-	-	-	-	556,180
Other assets	<u>177,811</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>177,811</u>
Total - restated	<u>2,557,098</u>	<u>26,214</u>	<u>101,737</u>	<u>157,579</u>	<u>-</u>	<u>2,842,628</u>

An analysis of past due loans, by age, is provided below.

Aging analysis of past due or impaired loans

	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 91 days</i>	<i>Total</i>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	
2012					
Past due but not impaired loans and advances	18,871	10,802	12,685	43,840	86,198
Impaired loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,057</u>	<u>63,057</u>
Total past due or impaired loans	<u>18,871</u>	<u>10,802</u>	<u>12,685</u>	<u>106,897</u>	<u>149,255</u>
2011 (restated)					
Past due but not impaired loans and advances	23,319	7,979	6,439	36,812	74,549
Impaired loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,030</u>	<u>83,030</u>
Total past due or impaired loans - restated	<u>23,319</u>	<u>7,979</u>	<u>6,439</u>	<u>119,842</u>	<u>157,579</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

32 RISK MANAGEMENT continued

32.4 Liquidity risk and funding management

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2012 based on contractual maturities.

	<i>Less than 3 months AED 000</i>	<i>3 months to 1 year AED 000</i>	<i>1 year to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
ASSETS					
Cash and balances					
with U.A.E. Central Bank	12,764	-	-	-	12,764
Due from banks and financial institutions	809,644	226,125	13,497	-	1,049,266
Loans and advances, net	310,801	510,589	486,793	70,602	1,378,785
Islamic financing and investing assets	19,434	21,487	32,022	5,352	78,295
Investments, including associates	128,615	121,810	317,739	22,693	590,857
Other assets	<u>138,988</u>	<u>39,069</u>	<u>18,176</u>	-	<u>196,233</u>
Financial assets	1,420,246	919,080	868,227	98,647	3,306,200
Non-financial assets	-	-	12,565	403,300	415,865
Total assets	<u>1,420,246</u>	<u>919,080</u>	<u>880,792</u>	<u>501,947</u>	<u>3,722,065</u>
LIABILITIES					
Due to banks	183,690	106,295	-	-	289,985
Customers' deposits	1,153,600	617,871	32,200	-	1,803,671
Term loans	228,831	-	-	-	228,831
Other liabilities	<u>197,800</u>	<u>56,668</u>	<u>381,144</u>	<u>7,561</u>	<u>643,173</u>
Financial liabilities	1,763,921	780,834	413,344	7,561	2,965,660
Non-financial liabilities	<u>105,347</u>	-	-	-	<u>105,347</u>
Total liabilities	<u>1,869,268</u>	<u>780,834</u>	<u>413,344</u>	<u>7,561</u>	<u>3,071,007</u>

The maturity profile of the financial assets and liabilities at 31 December 2011 was as follows:

	<i>Less than 3 months Restated AED 000</i>	<i>3 months to 1 year Restated AED 000</i>	<i>1 year to 5 years Restated AED 000</i>	<i>Over 5 years Restated AED 000</i>	<i>Total Restated AED 000</i>
ASSETS					
Cash and balances					
with U.A.E. Central Bank	10,590	-	-	-	10,590
Due from banks and financial institutions	380,618	239,202	200,536	-	820,356
Loans and advances, net	321,148	315,393	490,034	82,282	1,208,857
Islamic financing and investing assets	12,381	17,584	32,855	6,014	68,834
Investments, including associates	601,370	27,000	240,131	53,060	921,561
Other assets	<u>92,314</u>	<u>59,082</u>	<u>26,415</u>	-	<u>177,811</u>
Financial assets	1,418,421	658,261	989,971	141,356	3,208,009
Non-financial assets	<u>11,770</u>	<u>258</u>	<u>37,033</u>	<u>249,893</u>	<u>298,954</u>
Total assets	<u>1,430,191</u>	<u>658,519</u>	<u>1,027,004</u>	<u>391,249</u>	<u>3,506,963</u>
LIABILITIES					
Due to banks	186,438	208,386	28,126	-	422,950
Customers' deposits	993,865	532,565	22,000	-	1,548,430
Term loans	17,993	99,093	291,114	-	408,200
Other liabilities	<u>391,621</u>	<u>11,295</u>	<u>13,917</u>	<u>6,678</u>	<u>423,511</u>
Financial liabilities	1,589,917	851,339	355,157	6,678	2,803,091
Non-financial liabilities	<u>69,019</u>	-	-	-	<u>69,019</u>
Total liabilities	<u>1,658,936</u>	<u>851,339</u>	<u>355,157</u>	<u>6,678</u>	<u>2,872,110</u>

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32 RISK MANAGEMENT continued**32.4 Liquidity risk and funding management** continued**Analysis of financial assets and financial liabilities by remaining contractual maturities** continued

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	<i>Less than 3 months AED 000</i>	<i>3 to 12 months AED 000</i>	<i>1 to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
2012					
Contingent liabilities	562,593	324,771	33,424	-	920,788
Commitments	159,626	-	-	-	159,626
Total	<u>722,219</u>	<u>324,771</u>	<u>33,424</u>	<u>-</u>	<u>1,080,414</u>
2011 (restated)					
Contingent liabilities	497,491	282,921	79,186	-	859,598
Commitments	<u>186,385</u>	-	-	-	<u>186,385</u>
Total - restated	<u>683,876</u>	<u>282,921</u>	<u>79,186</u>	<u>-</u>	<u>1,045,983</u>

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

32.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, systems failure, human error, fraud or external events. When required controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. While the Group cannot expect to eliminate all operational risks, through a control framework and by continuous monitoring and responding to potential risks, the Group is able to manage these risks. Controls include effective segregation of duties, appropriate access, authorisation and reconciliation procedures, staff training and robust assessment processes. The processes are reviewed by risk management and internal audit on an ongoing basis.

32.6 Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

In common with other insurers, in order to minimize financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

To minimize its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

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33 FAIR VALUE OF FINANCIAL INSTRUMENTS

While the Group prepares its financial statements under the historical cost convention modified for measurement to fair value of investments at fair value through other comprehensive income and profit and loss and investment properties, in the opinion of management, the estimated carrying values and fair values of financial assets and liabilities, that are not carried at fair value in the financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits and performing loans and advances, frequently repriced. For impaired loans and advances, expected cash flows, including anticipated realisation of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the cash flows.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy for the year ended 31 December 2012:

	<i>Level 1</i> <i>AED 000</i>	<i>Level 2</i> <i>AED 000</i>	<i>Level 3</i> <i>AED 000</i>	<i>Total</i> <i>AED 000</i>
FINANCIAL ASSETS				
<i>At fair value through profit or loss</i>				
Quoted equities	50,053	-	-	50,053
Bonds	255,287	-	-	255,287
	<u>305,340</u>	-	-	<u>305,340</u>
<i>At fair value through other comprehensive income</i>				
Quoted equities	78,562	-	-	78,562
Unquoted equities	-	67,330	96,470	163,800
	<u>78,562</u>	<u>67,330</u>	<u>96,470</u>	<u>242,362</u>

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy for the year ended 31 December 2011:

	<i>Level 1</i> <i>Restated</i> <i>AED 000</i>	<i>Level 2</i> <i>Restated</i> <i>AED 000</i>	<i>Level 3</i> <i>Restated</i> <i>AED 000</i>	<i>Total</i> <i>Restated</i> <i>AED 000</i>
FINANCIAL ASSETS				
<i>At fair value through profit or loss</i>				
Quoted equities	38,977	-	-	38,977
<i>At fair value through other comprehensive income</i>				
Quoted equities	113,388	-	-	113,388
Unquoted equities	-	62,485	99,291	161,776
	<u>113,388</u>	<u>62,485</u>	<u>99,291</u>	<u>275,164</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Investments carried at fair value through profit and loss

Investments carried at fair value through profit and loss are listed equities and debt instruments in local as well as international exchanges. Valuations are based on market prices as quoted in the exchange.

Investments carried at fair value through other comprehensive income

Investments carried at fair value through other comprehensive income, the revaluation gains / losses of which are recognized through equity, comprise long term strategic investments in listed equities, companies and private equity funds. Listed equity valuations are based on market prices as quoted in the exchange while funds are valued on the basis on net asset value statements received from fund managers. For companies, the financial statements provide the valuations of these investments which are arrived at primarily by discounted cash flow analysis.

Transfers between categories

During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements (2011: None).

However, during the year, the Group transferred investments carried at amortized cost amounting to AED 276,700 to investments carried at fair value through profit and loss categorized under level 1 fair value measurement.

34 CAPITAL ADEQUACY

Capital management

The primary objective of the Group's capital management is to ensure that the Group maintains healthy capital ratios in order to support its business, to maximise shareholders' value and to ensure that the Group complies with externally imposed capital requirements.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The capital adequacy ratio calculated in accordance with the U.A.E. Central Bank's guidelines for commercial banks is as follows:

	<i>2012</i>	<i>Restated</i>
	<i>AED 000</i>	<i>2011</i>
		<i>AED 000</i>
Total capital base	<u>783,623</u>	<u>646,519</u>
Risk weighted assets:		
Statement of financial position items	<u>2,633,156</u>	2,208,621
Off statement of financial position exposures	<u>310,707</u>	<u>273,465</u>
Total risk weighted assets	<u>2,943,863</u>	<u>2,482,086</u>
Total assets ratio (%)	<u>26.6%</u>	<u>26.0%</u>