ANNUAL REPORT 2011

بـنـك رأس الخـيـمـة الـوطـنـي (ش.م.ع)

RAKBANK

THE NATIONAL BANK OF RAS AL-KHAIMAH (P.S.C.)

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Basel II – Pillar III disclosures are available on RAKBANK website www.rakbank.ae

بنك رأس الخيمة الوطني (ش.م.ع)
RAKBANK
THE NATIONAL BANK OF RAS AL-KHAIMAH (P.S.C.)

Head Office	RAKBANK Building, Emirates Road, P.O. Box: 5300 Ras Al Khaimah	Telephone: 07-2062222 Telefax: 07-2435454 E-mail: nbrakho@emirates.net.ae SWIFT: NRAKAEAK
Treasury	Dubai Main Office, Sultan Business Center P.O. Box: 1531, Dubai	Telephone: 04-3372322/04-2915200 Telefax: 04-3352135
Personal Banking	Telex: 99210 NBRAKFX EM	Telephone: 04-2248000 Telefax: 04-3370122
Commercial Banking		Telephone: 04-2915151 Telefax: 04-337 0402

BRANCHES

Al Nakheel Branch
P.O. Box: 5300, Ras Al-Khaimah, U.A.E.
Telephone: 07-2062107
Telefax: 07-2284202

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P.O. Box: 5300, Ras Al Khaimah, U.A.E.
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Telefax: 07-2351178

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Al Rams Branch
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Telephone: 04-2913623
Telefax: 04-2223738

Deira Souq Branch
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Telefax: 04-3968600

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Telefax: 04-3370342

Emmar Business Park Branch
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Telephone: 04-2913655
Telefax: 04-3619222

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Telefax: 04-3435281

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Telefax: 04-4224813

Ibn Battuta Mall Branch
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Telefax: 04-3685891

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Telefax: 04-2845757

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P.O. Box 1531, Dubai, U.A.E.
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Telefax: 04-2804004

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Telephone: 04-2916079
Telefax: 04-3306344

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P.O.Box 41010, Sharjah, U.A.E.
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Telefax: 06-5746363

Sharjah Ind. Area Branch
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Telefax: 06-5353669

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P.O. Box: 10114, Sharjah, U.A.E.
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Telefax: 09-2371800

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P.O.Box: 11171, Sharjah, U.A.E.
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Telefax: 09-2778881

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Telefax: 02-6444318

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P.O. Box: 2289, Abu Dhabi, U.A.E.
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Telefax: 02-6656305

Musaffah Branch
P O Box No. 2289, Abu Dhabi, U.A.
Telephone: 02-4127300
Telefax: 02-5541109

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Corniche Tower
P.O. Box: 2289, Abu Dhabi, U.A.E.
Telephone: 02-4127666
Fax: 02-6350549

Al Jazira Branch
Al Jazira Sports and Cultural Club
P.O. Box: 2289, Abu Dhabi, U.A.E.
Telephone: 02-4127666
Telefax: 02-6350549

Al Ain Branch
P.O. Box: 1130, Al Ain, U.A.E.
Telephone: 03-7029000
Telefax: 03-7644212

Auditors
PricewaterhouseCoopers,
Emaar Square, Building 4 Level 8
P.O. Box: 11987, Dubai, United Arab Emirates
Telephone: 04-3043100
Facsimile: 04-3304100

Shareholders

The Government of Ras Al-Khaimah	52.75%
Citizens of the United Arab Emirates	31.76%
Others	15.49%

Board of Directors

H.E. Shaikh Omar bin Saqr Al-Qasimi	Chairman
H.E. Shaikh Salim bin Sultan Al-Qasimi	Member
Mr. Hamad Abdulaziz Al Sagar	Member
Mr. Abdul Aziz Abdulla Al Zaabi	Member
Mr. Essa Ahmed Abu Shuraija Al Neaimi	Member
Mr. Yousuf Obaid Essa Al Nuaimi	Member
Mr. Ahmed Essa Al Naeem	Member

Management

Mr. Graham Honeybill	Chief Executive Officer
Mr. Ian Hodges	Head of Personal Banking
Mr. Anil Sukhia	Head of Corporate Banking
Mr. Malcolm D'Souza	Head of Treasury and International
Mr. Tim Basford	Chief Operating Officer
Mr. Ananthraman Venkat	Chief Financial Officer
Mr. Saleh Ali Saleh Saeed Al Zaabi	Head of Wealth Management and Branches

Directors' Report to the Shareholders

Management Discussion and Analysis

We are pleased to present the results of your bank for the year ended 31st December 2011. Net profit for the year amounted to AED1,203.5 million, an increase of 20.02% over the previous year.

2011 started well with good loan growth until implementation of the Central Bank of the UAE directions which restricted and standardised loan criteria for all borrowers. The curtailment of lending to UAE Nationals and associated fee reduction across the majority of consumer products impacted the bank's net revenues by AED 150 million in 2011. The bank re-focused its business towards SME and other lending opportunities within the consumer banking segments.

The improving liquidity situation which we saw at the end of 2010 continued for the greater part of 2011 bringing with it a steady reduction in deposit rates. Liquidity tightened towards the end of the year but overall the situation remained significantly better than 2010.

RAKBANK has continued to focus on good opportunities in its chosen lending segments, namely expatriate personal loans, auto loans, small and medium enterprises, credit cards and mortgages. RAKBANK has continued to lend throughout the year and identified good opportunities that it took advantage of. It is this growth in customer numbers and lending volumes that is a primary reason for the excellent results which have been produced this year.

Financial Performance

A net profit of AED1,203.5 million was achieved in 2011 compared to AED1,002.8 million for the previous year. Once again the bank has focused on its core business namely Retail and SME. The bank has continued to seek business opportunities in its chosen segments and as a result net interest income rose to AED1.98 billion, an increase of 23.4% over 2010. Total advances as at 31st December 2011 stood at AED18.37 billion, an increase of 12% over 2010 whilst total assets increased by AED3.1 billion (14.6%) to close at AED24.5 billion.

Overall other income increased by approximately 7.9% to AED652.9 million although there was a fall in net fee and commission income reflecting the impact of the restriction on charges imposed by the Central Bank in their circular.

The bank has very conservative provision guidelines and during the year took adequate provision on its portfolio. Net credit losses increased by 11.58% to AED301 million from AED269.8 million in 2010. This was on a larger credit base. During the last quarter the bank was particularly aggressive in its provisioning.

Growth in the asset book has been supported by a combination of increases in customer deposits and shareholder equity. The growth in customer deposits was spread between call deposits and transaction accounts.

Directors' Report to the Shareholders (Continued)

Financial Performance (Continued)

Total customer deposits grew by 11.7% to close at AED18.3 billion compared to AED16.3 billion the previous year.

Investment securities outstanding have increased to AED1.164 billion from AED767.9 million. This increase was driven by a decision to retain a larger proportion of liquid assets in easy marketable securities which provided a significantly better return than is presently available elsewhere in the market. For transparency the bank provides in the Notes to the Financial Statements a full list of the investments it currently holds. The bank intends holding all its bond investments to maturity and on present information available to us no loss is anticipated.

The bank continues to expand and a growth in operating expenses seen in 2011 is reflective of this. The cost/income ratio at the end of 2011 was 42.9% compared with 42.5% for 2010. These ratios are not out of line for a Retail/SME bank.

The liquidity ratios stood at 19% at the yearend compared to 18.2% at the end of 2010. The bank has no syndicated loan or EMTN programmes outstanding and although there has been some improvement in the international market the bank has no plans to seek longer term finance at this moment in time.

The bank's tier 1 capital ratio as per Basel I at the end of the year was 17.2% against a current minimum of 12% for Tier 1 capital prescribed by the Central Bank of the UAE. The bank does not account internally for the capital benefit of the liquidity support facility given by the Ministry of Finance but if this figure was taken into account then the bank's overall capital adequacy ratio would stand at 20.6% a figure which will be further enhanced on approval by the Shareholders of the proposed dividend.

The bank increases in size year on year but continues to provide a very high standard of service to its customers evidenced by the most satisfactory level of new customer acquisitions achieved in 2011. Once again the entire RAKBANK team are to be commended for this excellent performance.

Ratings

The bank is currently rated by the following leading rating agencies. Their recent ratings have remained unchanged as follows:

Rating Agency	Deposits	Financial Strength	Outlook	Support
Moody's	Baa1 / P-2	D+	Stable	-
Fitch	BBB+ / F2	C	Stable	2
Capital Intelligence	A-/ A2	BBB+	Stable	2

We are pleased to note that all of our ratings carry a stable outlook.

Directors' Report to the Shareholders (Continued)

Dividend

The Directors, at the board meeting held on 22nd January 2012 have recommended a stock dividend of 10% and a cash dividend of 25%. Subsequently by a circular resolution dated 25th February 2012 the Directors recommended an increase in the cash dividend to 30%. The Directors consider that the Bank is well placed to meet the continuing challenges which will be faced during 2012. The dividend recommendations will result in 65% of net profit being retained within the Bank's shareholders equity thereby increasing capital and reserves to strengthen the Bank's overall position and provide support for future growth.

The bank continues to grow in size and complexity and the Directors consider it prudent to increase the general banking risk reserve by AED150 million to AED500 million and the credit risk reserve by AED50 million to AED750 million. In addition the Directors have recommended the creation of a special reserve account titled Reserve - Regulatory Credit risk into which an initial amount of AED240 million will be transferred. This reserve will be maintained at a level of 1.5% of credit risk weighted assets. These measures will increase the bank's shareholders' equity to AED4.3 billion after payment of cash dividend.

Outlook for 2012

The bank's business is exclusively within the UAE where it focuses on the delivery of quality products for our retail and small business customers allied with a high level of customer service quality. Through careful management and good underwriting the bank remains well positioned to take advantage of business opportunities as they present themselves this year.

The world financial situation remains difficult and if issues in Europe are not managed satisfactorily they have the potential to create a very negative situation later this year.

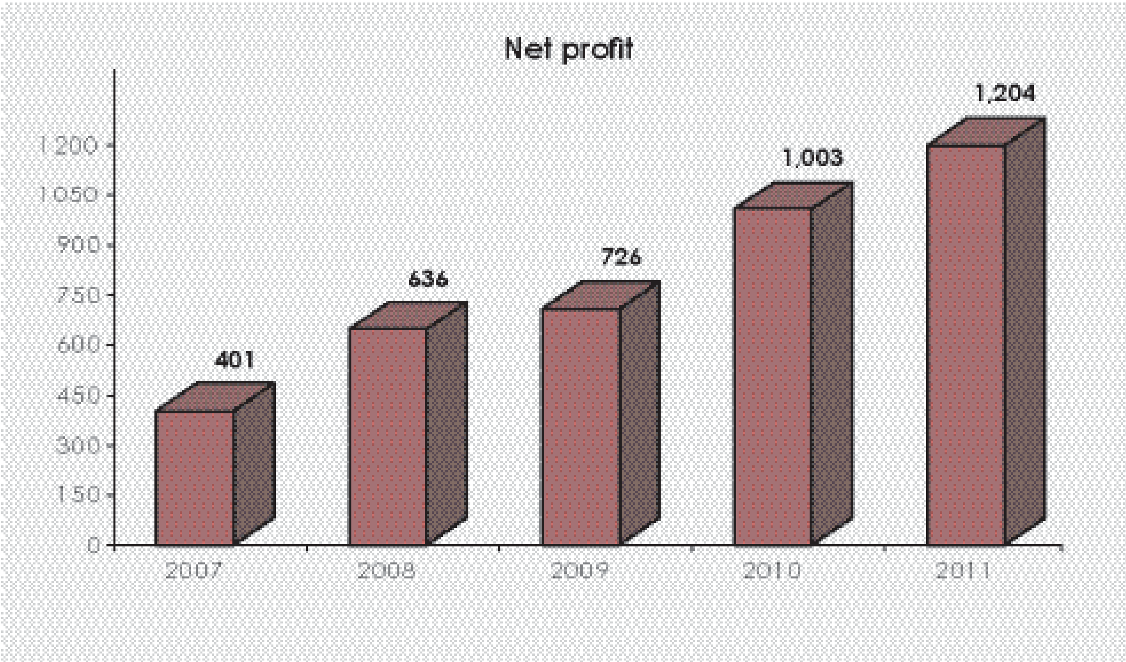
Provided that these issues can be resolved going forward into the year then the bank has confidence in the success of its ongoing strategy.

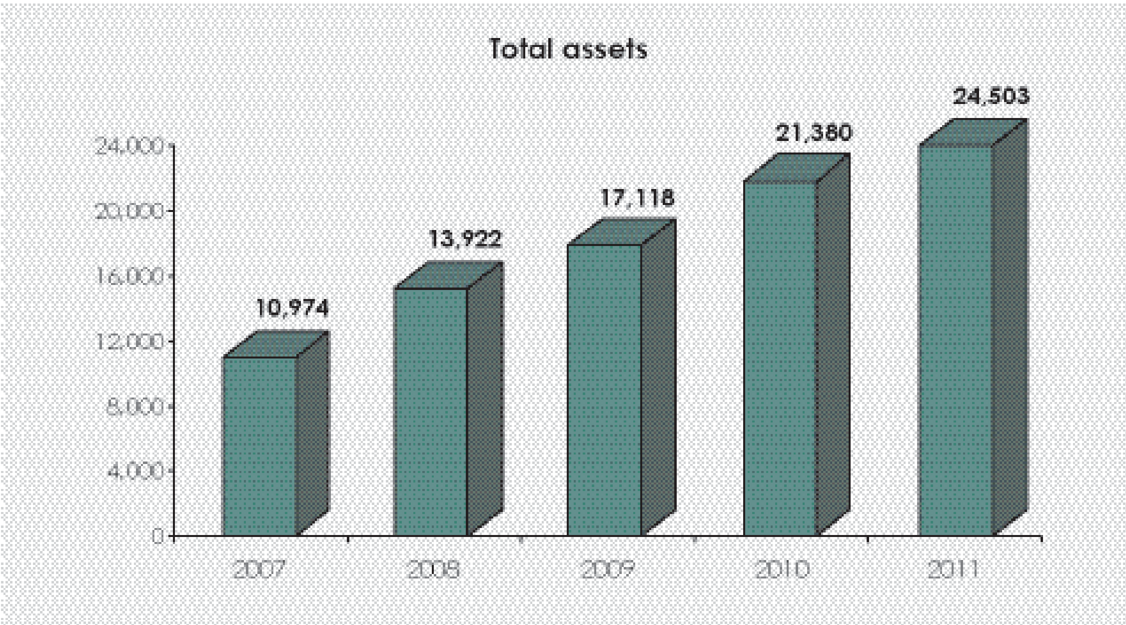
We are grateful for the continued whole-hearted support of His Highness Sheikh Saud bin Saqr Al-Qasimi and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the bank for their outstanding performance during 2011 and the bank's customers for their continued support.

H.E. Sheikh Omar Bin Saqr Al-Qasimi
Chairman
For and on behalf of Board of Directors
25 February 2012

Financial highlights (continued)

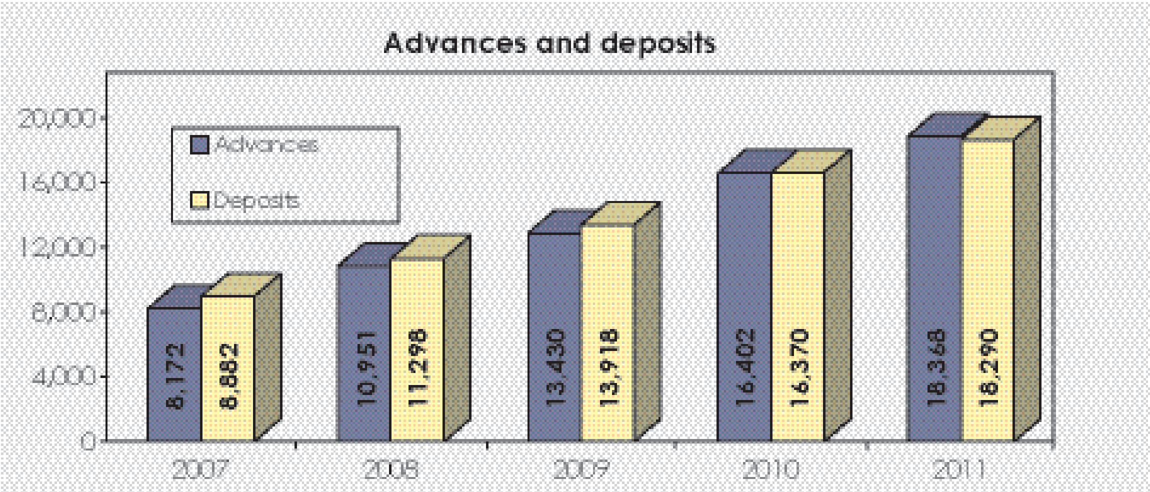
All figures shown are in millions of UAE Dirhams.

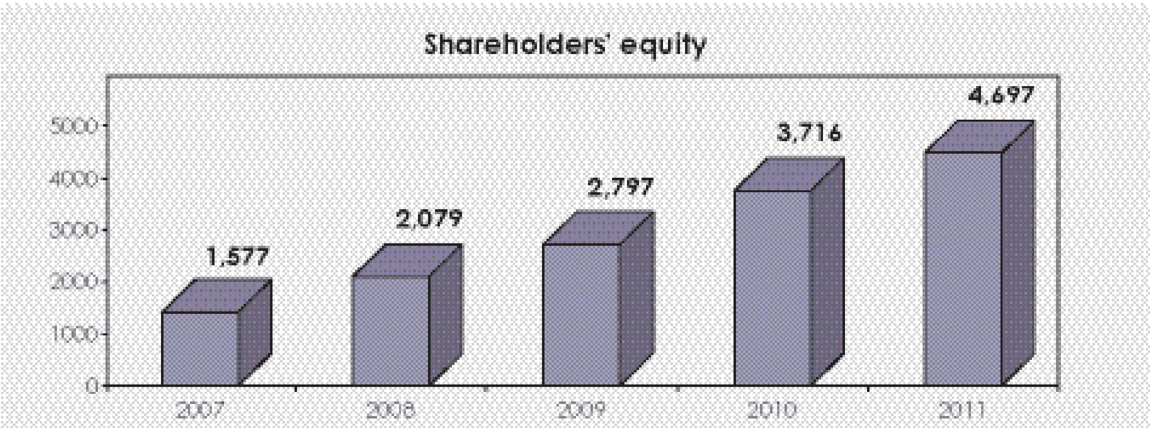


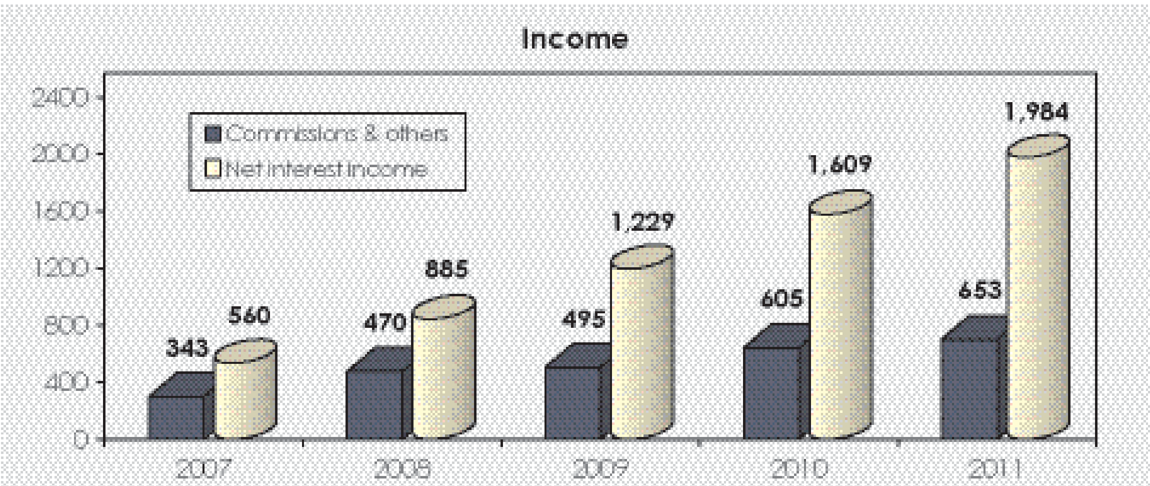


Financial highlights (continued)

All figures shown are in millions of UAE Dirhams.







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Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C.)

Report on the financial statements

We have audited the accompanying financial statements of The National Bank of Ras Al-Khaimah (P.S.C.) ("the bank"), which comprise the balance sheet as of 31 December 2011 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Independent auditors’ report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C.) (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

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

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

(iii) the bank has maintained proper books of account and the financial statements are in agreement therewith;

(iv) the financial information included in the Directors' report is consistent with the books of account of the bank; and

(v) nothing has come to our attention, which causes us to believe that the bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2011.

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

PricewaterhouseCoopers
22 January 2012, except for note 26, as to which the date is 26 February 2012

Jacques E Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

Balance sheet

	Note	At 31 December 2011 AED'000	2010 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	5	1,844,193	1,935,059
Due from other banks	6	1,972,251	1,303,207
Loans and advances	7	18,368,470	16,401,741
Investment securities	8	1,163,813	767,983
Property and equipment	9	952,167	771,948
Other assets	10	201,643	200,013
Total assets		24,502,537	21,379,951
LIABILITIES			
Due to other banks	11	334,471	100,469
Due to customers	12	18,290,165	16,370,129
Subordinated debt	13	684,467	684,467
Other liabilities	14	443,495	462,920
Provision for employees' end of service benefits	15	53,067	45,608
Total liabilities		19,805,665	17,663,593
SHAREHOLDERS' EQUITY			
Share capital	16	1,385,327	1,154,439
Share premium	17	110,350	110,350
Retained earnings		1,157,426	782,194
Other reserves	18	2,043,769	1,669,375
Total shareholders' equity		4,696,872	3,716,358
Total liabilities and shareholders' equity		24,502,537	21,379,951

These financial statements were authorised for issue by the Board of Directors on 22 January 2012 and were signed on its behalf by:

H.E. Sheikh Omar Bin Saqr Al-Qasimi
Chairman

Graham Honeybill
Chief Executive Officer

The notes on pages 13 to 67 form an integral part of these financial statements

Income statement

	Note	Year ended 31 December 2011 AED'000	2010 AED'000
Interest income	21	2,365,550	2,046,781
Interest expense	21	(381,039)	(438,219)
Net interest income		1,984,511	1,608,562
Fee and commission income	22	522,754	529,798
Foreign exchange income		57,771	43,066
Income from investment securities	8(c)	49,315	13,353
Other operating income		23,104	18,748
Operating income		2,637,455	2,213,527
Operating expenses	23	(1,132,897)	(941,002)
Impairment charge on loans and advances net of write backs	7(d)	(301,018)	(269,774)
Net profit for the year		1,203,540	1,002,751
Earnings per share			
Basic	25	AED 0.87	AED 0.72

Statement of comprehensive income

	Note	2011 AED'000	2010 AED'000
		Year ended 31 December	
Net profit for the year		1,203,540	1,002,751
Other comprehensive income:			
Net changes in fair value of available-for-sale investment securities	8(b), 18	7,862	11,613
Release of fair value loss to income statement on disposal of available-for-sale investment securities	8(c)	-	1,221
Total other comprehensive income		7,862	12,834
Total comprehensive income for the year		1,211,402	1,015,585

The notes on pages 13 to 67 form an integral part of these financial statements

Statement of changes in shareholders' equity

	Notes	Share capital AED'000	Share premium AED'000	Retained Earnings AED'000	Other reserves AED'000	Total AED'000
At 1 January 2010		962,033	110,350	556,809	1,167,784	2,796,976
Total comprehensive income for the year		-	-	1,002,751	12,834	1,015,585
Transfer to legal reserve	18	-	-	(100,275)	100,275	-
Transfer to voluntary reserve	18	-	-	(38,482)	38,482	-
Transfer to credit risk reserve	18	-	-	(200,000)	200,000	-
Transfer to general banking reserve	18	-	-	(150,000)	150,000	-
Issue of bonus shares	16	192,406	-	(192,406)	-	-
Cash dividend	26	-	-	(96,203)	-	(96,203)
At 31 December 2010		1,154,439	110,350	782,194	1,669,375	3,716,358
Total comprehensive income for the year		-	-	1,203,540	7,862	1,211,402
Transfer to legal reserve	18	-	-	(120,354)	120,354	-
Transfer to voluntary reserve	18	-	-	(46,178)	46,178	-
Transfer to credit risk reserve	18	-	-	(50,000)	50,000	-
Transfer to general banking reserve	18	-	-	(150,000)	150,000	-
Issue of bonus shares	16	230,888	-	(230,888)	-	-
Cash dividend	26	-	-	(230,888)	-	(230,888)
At 31 December 2011		1,385,327	110,350	1,157,426	2,043,769	4,696,872

The notes on pages 13 to 67 form an integral part of these financial statements

Statement of cash flows

	Note	Year ended 31 December 2011 AED'000	2010 AED'000
Operating activities			
Net profit for the year		1,203,540	1,002,751
Adjustments:			
Net charge for impairment of loans and advances	7(d)	301,018	269,774
Depreciation	23	78,056	50,148
Provision for employees' end of service benefits	15	11,776	10,561
Gain on disposal of property and equipment		(579)	(87)
Amortisation of discount relating to investment securities held for maturity	8(b)	(645)	(2,493)
Amortisation of cost relating to debt security in issue		-	538
Release of fair value gain to income statement on disposal of available-for-sale investment securities	8(c)	-	1,221
Operating cash flows before payment of employees' end of service benefits and changes in assets and liabilities		1,593,166	1,332,413
Payment of employees' end of service benefits	15	(4,317)	(1,340)
Changes in assets and liabilities:			
Statutory deposits with the UAE Central Bank		(479,535)	(176,821)
Certificate of deposits with the UAE Central Bank with original maturities of over 3 months		390,000	(230,000)
Loans and advances net of charge for impairment and amounts written off/(back)	7	(2,267,747)	(3,241,819)
Other assets	10	(1,630)	(45,502)
Due to other banks (net of amounts due to Central Bank)	11	136,603	65,314
Due to customers	12	1,920,036	4,204,565
Other liabilities	14	(19,425)	132,158
Net cash generated from operating activities		1,267,151	2,038,968
Investing activities			
Purchase of investment securities	8(b)	(460,783)	(441,268)
Purchase of property and equipment	9	(262,016)	(204,811)
Proceeds from sale/maturity of investment securities	8(b)	73,460	85,718
Proceeds from sale of property and equipment		4,320	173
Net cash used in investing activities		(645,019)	(560,188)
Financing activities			
Dividend paid	26	(230,888)	(96,203)
Repurchase /Maturity of debt security in issue		-	(1,068,843)
Net cash used in financing activities		(230,888)	(1,165,046)
Net increase in cash and cash equivalents		391,244	313,734
Cash and cash equivalents, beginning of the year		1,842,574	1,528,840
Cash and cash equivalents, end of the year	28	2,233,818	1,842,574

The notes on pages 13 to 67 form an integral part of these financial statements

Notes to the financial statements for the year ended 31 December 2011

1 Incorporation and principal activities

The National Bank of Ras Al-Khaimah ("the bank") is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates ("UAE"). The head office of the bank is located at the National Bank of Ras Al-Khaimah building, Al Rifa area, Exit No. 129, Emirates road, Ras Al-Khaimah.

The bank is engaged in providing retail and commercial banking services through a network of thirty one branches in the UAE.

2 Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards, (IFRS). The financial statements are prepared under the historical cost convention except for available-for-sale financial assets and derivative financial instruments which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

<u>New standard that is effective for the bank's accounting periods beginning 1 January 2011</u>

The following applicable new standard has been published and is effective for bank's accounting periods beginning 1 January 2011:

- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011.

Management has assessed the impact of the above new standard on the bank's financial statements and has concluded that the effect on the bank's financial statements is not material.

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

The following applicable new standards and amendment to published standard have been issued but are not effective for the bank's accounting period beginning 1 January 2011 and have not been early adopted by the bank:

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

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

- IFRS 13, 'Fair value measurement' (effective 1 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

The bank is has assessed the impact of the above standards and amendment to published standard and has concluded that they will not have a significant impact of the bank's financial statements.

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Significant accounting policies (continued)

(b) Loans and advances and provision for impairment

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognized at fair value, which is the cash consideration to originate or purchase a loan including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

The bank assesses at each balance sheet date whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired and impairment losses are incurred only if there is objective evidence that the bank will not be able to collect all amounts due.

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) adverse changes in the payment status of borrowers in the portfolio; and
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

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

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Significant accounting policies (continued)

(b) Loans and advances and provision for impairment (continued)

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

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

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

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

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the loan is considered to be past due and disclosed only if renegotiated again.

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Significant accounting policies (continued)

(c) Investment securities

The bank classifies its investment securities in the following categories: held-to-maturity investments and available-for-sale investments. Management determines the classification of its investments at initial recognition.

Held-to-maturity: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity. If the bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Available-for-sale: Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and advances, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Regular purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised through the statement of comprehensive income is recognised in the income statement.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the bank establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as income from investment securities in the income statement.

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

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Significant accounting policies (continued)

(c) Investment securities (continued)

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement. Impairment on debt securities classified as available-for-sale and those held to maturity is assessed as outlined in the accounting policy of impairment of loans and advances (Note 2(b)).

(d) Due from banks

Amounts due from banks are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amount due from banks is assessed as outlined in the accounting policy of loans and advances (Note 2(b))

(e) Cash and cash equivalents

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

(f) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(g) Property and equipment

Land and buildings comprise mainly branches and offices. Property and equipment is stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Significant accounting policies (continued)

(g) Property and equipment (continued)

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other assets is calculated using the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	15 - 30
Computer equipment	4-10
Furniture, fixtures and equipment	4 - 6
Leasehold improvements	2– 6
Motor vehicles	2- 4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capital work in progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the bank's accounting policy.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount being the higher of the net selling price and value in use.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income.

(h) Fiduciary assets

Assets and the income arising on the bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these financial statements. Income earned by the bank from its fiduciary services is recognised in accordance with the accounting policy on fees and commission income (Note 2(o)).

(i) Employee benefits

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

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to balance sheet date. This provision is included in other liabilities. Provision is also made for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law for their periods of service up to the balance sheet date and the provision arising is disclosed as 'provision for employee's end of service benefits' in the balance sheet.

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Significant accounting policies (continued)

(j) Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the bank's shareholders.

(k) Provisions

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

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing, using the effective interest method.

(m) Foreign currencies

Items included in the financial statements of the bank are measured using UAE Dirhams which is the currency of the primary economic environment in which the bank operates ('functional currency'). The financial statements are presented in UAE Dirhams. Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the balance sheet date. Any resultant gains or losses are accounted for in the income statement other than for items presented in other comprehensive income. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

(n) Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method. Interest earned whilst holding investment securities is reported as income from investment securities in the income statement.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Significant accounting policies (continued)

(n) Interest income and expense (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(o) Fee and commission income

Fees and commissions, other than loan arrangement fees, are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Fees earned on the banks fiduciary activities are recognised over the period in which the service is provided. The same principle is applied to custody services that are continuously provided over an extended period of time.

(p) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(q) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

(r) Segment reporting

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

In accordance with IFRS 8, the bank has the following business segments: retail banking, business banking and treasury.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management

3.1 Risk management review

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

The bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

3.2 Credit risk

Credit risk is defined as the risk that the bank's customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the bank to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the bank, thereby resulting in the value of the assets to fall. As credit risk is the bank's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the bank.

The banks credit policy provides for the development of a systematic and consistent approach to identifying and managing borrower and counter party risks contained in all retail, corporate and SME assets.

The Head of Credit and his team including Collections are responsible for recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the framework set out in the Policy, Product Programs, Credit circulars and comply with regulatory norms.

The bank manages, limits and controls concentration of credit risk wherever it is identified – in particular, to individual counterparties and groups, and to industries and countries. The bank has a Product Program Guide that sets limits of exposure and lending criteria. The bank also has credit limits that set out the lending and borrowing limits to/from other banks.

The bank stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an on going basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Executive Committee and the Board of Directors.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

The exposure to any one borrower, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on an ongoing basis.

3.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	31 December 2011	31 December 2010
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks	1,972,251	1,303,207
Loans and advances:		
Loans to retail customers	18,040,411	16,050,993
Loans to corporate customers	328,059	350,748
Investment securities	1,163,813	767,983
Other assets	148,535	134,071
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other off balance sheet items	5,858,454	5,404,895
	27,511,523	24,011,897

The above table represents a worse case scenario of credit risk exposure to the bank at 31 December 2011 and 2010 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 95% (2010: 96%) of the total maximum exposure arises from loans and advances and amounts due from banks.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Management is confident in its ability to continue to control and minimise the loss arising from its exposure to credit risk resulting from its loans and advances portfolio, investment securities portfolio and amounts due from banks based on the following:

- 92% (2010: 89%)of the loans and advances is categorised in the top grades of the bank's internal grading system.
- Mortgage loans and auto loans, which together represent a significant portion of loans and advances are backed by collateral.
- The bank continuously reviews its credit policy and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports.
- A significant portion of investments securities comprise debt instruments that are issued by government and reputable quasi government organistation (Note 8).

3.2.2 Loans and advances to customers and amounts due from banks

Loans and advances to customers and amounts due from banks are summarised as follows:

	31 December 2011		31 December 2010	
	Loans and advances to customers	Amounts due from banks	Loans and advances to customers	Amounts due from banks
	AED'000	AED'000	AED'000	AED'000
Neither past due nor impaired	17,119,026	1,972,251	14,927,596	1,303,207
Past due but not impaired	1,113,306	-	1,370,523	-
Individually Impaired	474,116	-	411,516	-
Gross	18,706,448	1,972,251	16,709,635	1,303,207
Less: allowance for impairment	(337,978)	-	(307,894)	-
Net	18,368,470	1,972,251	16,401,741	1,303,207

The total impairment provision for loans and advances is AED 337.98 million (2010: AED 307.89 million) of which AED 254.33 million (2010 – AED 200.29 million) represents provision in respect of the individually impaired loans and advances and the remaining amount of AED 83.65 million (2010 AED 107.6 million) represents the portfolio provision to reflect the risk inherent in bank's loan portfolio.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Neither past due nor impaired

	31 December 2011		31 December 2010	
	Loans and advances to customers	**Amounts due from banks**	**Loans and advances to customers**	**Amounts due from banks**
	AED'000	AED'000	AED'000	AED'000
Loans and advances				
- Retail loans	16,796,890	-	14,577,869	-
- Corporate loans	322,136		349,727	-
Due from banks	-	1,972,251	-	1,303,207
Gross	17,119,026	1,972,251	14,927,596	1,303,207

<u>Loans and advances</u>

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the bank.

Retail banking loans are graded into buckets according to the number of installments past due. All loans that are not in default of interest payment and installment are graded as bucket 0, while loans and advances that are in default of interest payment and installments are graded upwards from bucket 1 onwards, depending on the number of days past due. The corporate banking and SME credit matrix is used to rate corporate and SME loans under various characteristics. There are six categories of performing loans and three categories of non-performing loans. These ratings are reviewed at least once a year, or more frequently as required. Loans and advances are classified as delinquent after 90 days of non-payment of interest and installments. The credit policy has set internal lending limits for various industry exposures. The corporate loan portfolio is reviewed on a quarterly basis. Further, mortgage loans and auto loans, which together represent a significant portion of loans and advances, are backed by collateral. The bank uses the grading of loans into different buckets in assessing the impairment loss in the bank's loan portfolio.

<u>Amounts due from banks</u>

The bank held amounts due from banks of AED 1,972 million (2010: 1,303 million) which represents its maximum credit exposure on these assets. The balance due from banks includes AED 1,640 million placements with banks which enjoy a credit rating of atleast BBB+.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class of customers that were past due but not impaired are as follows:

	31 December 2011			31 December 2010		
	Retail loans AED'000	**Corporate loans** AED'000	**Total** AED'000	**Retail loans** AED'000	**Corporat e loans** AED'000	**Total** AED'000
Past due up to 30 days	725,216	-	725,216	806,868	-	806,868
Past due 30 - 60 days	252,206	-	252,206	301,677	-	301,677
Past due 60-90 days	135,884	-	135,884	261,978	-	261,978
Total	1,113,306	-	1,113,306	1,370,523	-	1,370,523
Fair value of collateral	397,818	-	397,818	659,531	-	659,531

Individually Impaired

The breakdown of the gross amount of individually impaired loans and advances, along with the fair value of related collateral held by the bank as security, are as follows:

	31 December 2011			31 December 2010		
	Retail loans AED'000	**Corporate loans** AED'000	**Total** AED'000	**Retail loans** AED'000	**Corporate loans** AED'000	**Total** AED'000
Individually impaired loans	435,566	38,550	474,116	371,635	39,881	411,516
Fair value of collateral	(237,492)	(9,595)	(247,087)	(163,797)	(9,601)	(173,398)
Net	198,074	28,955	227,029	207,838	30,280	238,118

Notes to the financial statements for the year ended 31 December 2011 (continued)

Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Loans and advances renegotiated

Restructuring activities include extended payment arrangements and modification and deferral of payments. The majority of restructuring activity is under taken to improve cash flow and is within the terms and condition of the bank's product programme guideline. These policies are kept under continuous review. Once a loan is renegotiated, it is no longer considered past due but is treated as a new loan. The table below presents the loans restructured during the year 2011 and 2010.

Restructured Loans - Retail banking

Product	2011 No of Accounts	2011 Loan Amount AED'000	2010 No of Accounts	2010 Loan Amount AED'000
Retail Loans	1,034	486,760	1,017	232,206
Small Commercial Loans	363	244,037	462	206,877
Mortgage Loans	137	365,669	59	152,087
Total	1,534	1,096,466	1,538	591,170

3.2.3 Investment securities

Investment securities comprise debt securities issued by the Government, organisations which are quasi governmental and local and foreign reputable organisations.

The table below presents an analysis of debt securities by rating agency designation at 31 December 2011 and 31 December 2010, based on external's ratings or their equivalent.

	31 December 2011 AED'000	31 December 2010 AED'000
AAA	245,055	241,347
A- to A+	446,223	183,184
Lower than A-	375,595	288,357
Unrated	96,940	55,095
Total	1,163,813	767,983

3.2.4 Repossessed collateral

During 2011 and 2010, the bank has, except for retail auto loans, not taken possession of any collateral held as security other than bank deposits which may have been utilised in settlement of credit facilities. In the case of retail auto loans where the underlying asset is repossessed as a part of recovery process, these are disposed off in an auction by authorised third parties and the bank does not carry any such assets in its books.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Concentration of risks of financial assets with credit risk exposure

Concentrations arise when a number of counterparties 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 indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risk is controlled and managed accordingly.

Geographical risk concentration

The following table breaks down the bank's main credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2011 and 31 December 2010.

For this table, the bank has allocated exposures to regions based on the country of domicile of its counterparties:

On balance sheet items

	UAE	OECD	Others	Total
31 December 2011				
	AED'000	AED'000	AED'000	AED'000
Due from banks	1,632,715	249,839	89,697	1,972,251
Loans and advances				
- Retail loans	17,953,985	19,588	66,838	18,040,411
- Corporate loans	328,059			328,059
Investment securities				
- Held-to-maturity	975,367	-	37,020	1,012,387
- Available-for-sale	151,426	-	-	151,426
Other assets	148,535	-	-	148,535
Total	21,190,087	269,427	193,555	21,653,069
31 December 2010				
	AED'000	AED'000	AED'000	AED'000
Due from banks	1,154,770	106,026	42,411	1,303,207
Loans and advances:				
- Retail loans	15,893,099	26,189	131,705	16,050,993
- Corporate loans	350,748	-	-	350,748
Investment securities				
- Held-to-maturity	624,702	-	18,365	643,067
- Available-for-sale	124,916	-	-	124,916
Other assets	134,071	-	-	134,071
Total	18,282,306	132,215	192,481	18,607,002

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Concentration of risks of financial assets with credit risk exposure (continued)

Off balance sheet items

	UAE AED'000	OECD AED'000	Others AED'000	Total AED'000
31 December 2011				
Credit commitments	5,455,865	431	435	5,456,731
Guarantees, acceptances and other exposures	386,079	6,094	9,550	401,723
	5,841,944	6,525	9,985	5,858,454
31 December 2010				
Credit commitments	4,961,388	-	-	4,961,388
Guarantees, acceptances and other exposures	412,620	21,559	9,328	443,507
	5,374,008	21,559	9,328	5,404,895

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of credit risk by industry

The following table breaks down the bank's credit exposures on loans and advances, debt securities and off balance sheet items categorised by industry as of 31 December 2011 and 31 December 2010.

	On balance sheet items					
	Loans and advances	Debt securities	Due from banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2011						
Agriculture, fishing & related activities	26,179			26,179	208	26,387
Crude oil , gas, mining & quarrying					87,010	87,010
Manufacturing	179,496			179,496	162,771	342,267
Electricity & water	8,088			8,088	91	8,179
Construction	516,560			516,560	73,431	589,991
Trade	1,828,829			1,828,829	425,948	2,254,777
Transport, storage & communication	909,723	73,460		983,183	31,953	1,015,136
Financial Institutions	15,213	464,321	1,972,251	2,451,785	48,421	2,500,206
Services	340,627			340,627	145,946	486,573
Government		510,190		510,190	86,616	596,806
Retail and consumer banking	14,802,114			14,802,114	4,787,448	19,589,562
Others	159,151	115,842		274,993	8,611	283,604
Total exposures	18,785,980	1,163,813	1,972,251	21,922,044	5,858,454	27,780,498
Less: Interest in suspense	(79,532)	-	-	(79,532)	-	(79,532)
	18,706,448	1,163,813	1,972,251	21,842,512	5,858,454	27,700,966

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of credit risk by industry (continued)

	On balance sheet items					
	Loans and advances AED'000	Debt Securities AED'000	Due from banks AED'000	Total funded AED'000	Off balance sheet Items AED'000	Total AED'000
31 December 2010						
Agriculture, fishing & related activities	28,360	-	-	28,360	147	28,507
Crude oil , gas, mining & quarrying	1,987	-	-	1,987	68,941	70,928
Manufacturing	86,041	-	-	86,041	126,142	212,183
Electricity & water	3,474	-	-	3,474	50	3,524
Construction	450,957	-	-	450,957	114,394	565,351
Trade	1,289,959	-	-	1,289,959	321,086	1,611,045
Transport, storage & communication	447,959	-	-	447,959	23,541	471,500
Financial Institution	6,960	236,139	1,303,207	1,546,306	77,451	1,623,757
Services	336,738	-	-	336,738	103,427	440,165
Government	553	531,844	-	532,397	77,237	609,634
Retail and consumer banking	14,063,284	-	-	14,063,284	4,484,756	18,548,040
Others	65,689	-	-	65,689	7,723	73,412
Total exposures	16,781,961	767,983	1,303,207	18,853,151	5,404,895	24,258,046
Less: Interest in suspense	(72,326)	-	-	(72,326)	-	(72,326)
	16,709,635	767,983	1,303,207	18,780,825	5,404,895	24,185,720

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Individually impaired loans by industry

The breakdown of the gross amount of individually impaired loans and advances by industry are as follows:

	Less than 90 days AED'000	Overdue above 90 Days AED'000	Total AED'000	Specific Provision AED'000
31 December 2011				
Agriculture, fishing & related activities	-	-	-	-
Crude oil, gas, mining & quarrying	-	-	-	-
Manufacturing	307	521	828	768
Electricity & water	-	-	-	-
Construction	616	64,411	65,027	34,933
Trade	2,978	15,916	18,894	17,332
Transport, storage & communication	313	6,331	6,644	5,999
Financial institution	-	-	-	-
Services	505	2,815	3,320	3,094
Government	-	-	-	-
Retail and consumer banking	8,166	450,769	458,935	192,203
Total impaired loans	12,885	540,763	553,648	254,329
Less: Interest in suspense			(79,532)	-
			474,116	254,329

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Individually impaired loans by industry (continued)

	less than 90 days	Overdue above 90 Days	Total	Specific Provision
	AED'000	AED'000	AED'000	AED'000
31 December 2010				
Agriculture, fishing & related activities	-	-	-	-
Crude oil, gas, mining & quarrying	-	-	-	-
Manufacturing	-	-	-	-
Electricity & water	-	-	-	-
Construction	35	61,766	61,801	33,277
Trade	77	10,066	10,143	5,703
Transport, storage & communication	-	3,301	3,301	928
Financial institution	-	-	-	-
Services	-	3,095	3,095	2,040
Government	-	-	-	-
Retail and consumer banking	-	405,502	405,502	158,346
Total impaired loans	112	483,730	483,842	200,294
Less: Interest in suspense			(72,326)	-
			411,516	200,294

3.3 Market risk

The bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprises of the Heads of Finance, Treasury, Credit, Corporate Banking and Personal Banking. It meets on a regular basis to monitor and manage market risk.

ALCO is responsible for formalising the bank's key financial indicators and ratios, set the thresholds to manage and monitor the market risk and also analyse the sensitivity of the bank's interest rate and maturity mis-matches. ALCO also guides the bank's investment decisions and provides guidance in terms of interest rate and currency movements.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

Further the bank does not enter in derivative trades for speculative or hedging purposes. The only exposure to derivatives is in respect of forward exchange contracts which entered into on behalf of the bank's customers (Note 20).

3.3.1 Price risk

The bank is exposed to price risk as a result of its holdings in debt securities classified as available-for-sale investment securities. The fair values of investments quoted in active markets are based on current bid prices and for unlisted securities the bank establishes fair value by using valuation techniques. Senior management meets regularly to discuss the return on investment and concentration across the bank's investment portfolio.

The sensitivity analysis for price risk illustrates how changes in the fair value of securities held by the bank will fluctuate because of changes to market prices or changes in key variables used in valuation techniques, whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market. At 31 December 2011, if market prices had increased/decreased by 5%, with all other variables held constant, the fair value reserve in equity would have increased/decreased by AED 7.6 million (2010: AED 6.2 million).

3.3.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The bank monitors interest rate risk through the use of a detailed gap report and stress tests to analyse the impact of anticipated movements in interest rates.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

The bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 3 months AED'000	From 3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000	Total AED'000	Interest rate %
At 31 December 2011							
Assets							
Cash and balances with the UAE Central Bank	-	100,000	-	-	1,744,193	1,844,193	0.55
Due from other banks	1,640,467	-	-	-	331,784	1,972,251	0.12 -1.28
Loans and advances	2,450,068	415,948	15,502,454	-	-	18,368,470	0.01 – 33.00
Investment securities	299,918	208,487	655,408	-	-	1,163,813	0.90 – 8.50
Property and equipment and other assets					1,153,810	1,153,810	-
Total	4,390,453	724,435	16,157,862	-	3,229,787	24,502,537	
Liabilities and shareholders' equity							
Due to other banks	236,000	-	-	-	98,471	334,471	0.25 – 0.50
Due to customers	12,206,420	2,701,193	-	-	3,382,552	18,290,165	0.15 – 5.00
Subordinated debt	684,467	-	-	-	-	684,467	4.00
Other liabilities and provision for employees' end of service benefits					496,562	496,562	
Shareholders' equity					4,696,872	4,696,872	
Total	13,126,887	2,701,193	-	-	8,674,457	24,502,537	
Interest rate sensitivity gap	(8,736,434)	(1,976,758)	16,157,862	-	(5,444,670)	-	

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

	Less than 3 months AED'000	From 3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000	Total AED'000	Interest rate %
At 31 December 2010							
Assets							
Cash and balances with the UAE Central Bank	-	490,000	-	-	1,445,059	1,935,059	0.80 – 1.00
Due from other banks	1,089,210	-	-	-	213,997	1,303,207	0.18 -0.55
Loans and advances	3,249,067	223,839	12,928,835	-	-	16,401,741	0.01 – 33.00
Investment securities	367,900	178,795	185,644	35,644	-	767,983	0.62 - 8.5
Property and equipment and other assets	-	-	-	-	971,961	971,961	-
Total	4,706,177	892,634	13,114,479	35,644	2,631,017	21,379,951	
Liabilities and shareholders' equity							
Due to other banks	100,000	-	-	-	469	100,469	0.08
Due to customers	9,987,741	2,971,050	2,477	-	3,408,861	16,370,129	0.15 -5.75
Subordinated debt	-	684,467	-	-		684,467	4.00
Other liabilities and provision for employees' end of service benefits	-	-	-	-	508,528	508,528	-
Shareholders' equity	-	-	-	-	3,716,358	3,716,358	-
Total	10,087,741	3,655,517	2,477	-	7,634,216	21,379,951	
Interest rate sensitivity gap	(5,381,564)	(2,762,883)	13,112,002	35,644	(5,003,199)		

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The bank assumes a fluctuation in interest rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	2011 AED'000	2010 AED'000
Fluctuation in interest rates by 25 bps	13,613	12,508

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on the gap between AED 21,273 million (2010: AED 18,749 million) of interest bearing assets and AED 15,828 million (2010: AED 13,746 million) of interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.3.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the bank does maintain a US dollar open position within limits approved by the bank's Assets and Liabilities Committee (ALCO).

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

At 31 December 2011 and 31 December 2010, bank had the following net exposures denominated in foreign currencies:

On balance sheet items

At 31 December 2011	**AED** AED'000	**USD** AED'000	**Others** AED'000	**Total** AED'000
Assets				
Cash and balances with the UAE Central Bank	1,633,229	210,964	-	1,844,193
Due from other banks	935,291	590,504	446,456	1,972,251
Loans and advances	18,211,438	136,140	20,892	18,368,470
Investment securities	685,302	478,511	-	1,163,813
Other assets	142,877	5,544	114	148,535
Total assets	21,608,137	1,421,663	467,462	23,497,262
Liabilities				
Due to other banks	333,539	-	932	334,471
Due to customers	16,525,641	1,435,010	329,514	18,290,165
Subordinated debt	684,467			684,467
Other liabilities	352,765	32,890	62	385,717
Total liabilities	17,896,412	1,467,900	330,508	19,694,820
Net balance sheet position	3,711,725	(46,237)	136,954	3,802,442
At 31 December 2010				
Total assets	19,618,938	718,982	204,141	20,542,061
Total liabilities	16,144,455	1,193,987	230,216	17,568,658
Net balance sheet position	3,474,483	(475,005)	(26,075)	2,973,403

The bank has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the bank has the largest short net open position at 31 December 2011 and 31 December 2010. All currency position are within limits laid down by the Asset and liability committee.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

Off-balance sheet items

At 31 December 2011	**AED** AED'000	**USD** AED'000	**Others** AED'000	**Total** AED'000
Credit commitments	5,419,989	36,349	393	5,456,731
Guarantees, acceptances and other exposures	270,138	113,494	18,091	401,723
Total	5,690,127	149,843	18,484	5,858,454
At 31 December 2010				
Credit commitments	4,961,388	-	-	4,961,388
Guarantees, acceptances and other exposures	297,890	123,630	21,987	443,507
	5,259,278	123,630	21,987	5,404,895

3.4 Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for customer lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

3.4.1 Liquidity risk management process

The bank manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the bank's internal guidelines mandated by ALCO. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits ranging between 1% and 14% on demand and time deposits. The Central Bank of the U.A.E. also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. ALCO monitors liquidity ratios on a regular basis. The bank relies on deposits from customers and banks and subordinated liabilities as its primary source of funding. Deposits from customers and banks generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short term nature of these deposits increases the bank's liquidity risk and the bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. The bank also maintains a portfolio of short term highly liquid assets largely made up of balances with the UAE Central Bank, inter-bank facilities and investment securities to ensure that sufficient liquidity is maintained. At 31 December 2011, 19% (31 December 2010 – 18.2%) of the bank's total assets was in liquid assets.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.2 Non-derivative cash flows

The table below presents the cash flows payable by the bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2011					
Due to other banks	334,475	-	-	-	334,475
Due to customers	15,608,749	2,739,199	-	-	18,347,948
Subordinated debt	7,829	23,486	828,466	-	859,781
Other liabilities	385,717	-	-	-	385,717
Total	16,336,770	2,762,685	828,466	-	19,927,921
At 31 December 2010					
Due to other banks	100,470	-	-	-	100,470
Due to customers	14,092,287	2,314,299	5,136	-	16,411,722
Subordinated debt	6,940	20,820	138,794	720,900	887,454
Other liabilities	413,593	-	-	-	413,593
Total	14,613,290	2,335,119	143,930	720,900	17,813,239

3.4.3 Derivative cash flows

The bank's derivatives that will be settled on a gross basis comprise foreign exchange contracts.

The table below analyses the bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month AED'000	1 -3 months AED'000	3 -12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2011						
Foreign exchange contracts						
– Outflow	208,220	725				208,945
– Inflow	207,431	742				208,173
At 31 December 2010						
Foreign exchange contracts:						
– Outflow	48,119	-	-	-	-	48,119
– Inflow	47,632	-	-	-	-	47,632

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.4 Off-balance sheet items

At 31 December 2011	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
Credit commitments	5,456,731	-	-	5,456,731
Guarantees, acceptances and other financial facilities	328,128	73,595	-	401,723
Total	5,784,859	73,595	-	5,858,454
At 31 December 2010				
Credit commitments	4,946,118	15,270	-	4,961,388
Guarantees, acceptances and other financial facilities	153,644	289,863	-	443,507
Total	5,099,762	305,133	-	5,404,895

3.5 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2011, the carrying value of the bank's financial assets and liabilities approximate their fair values, except for the below mentioned financial asset and liability:

	Fair value		Carrying value	
	2011 AED'000	2010 AED'000	2011 AED'000	2010 AED'000
Financial assets				
Investment securities	1,178,168	755,105	1,163,813	767,983
Financial liabilities				
Subordinated debt	764,296	772,439	684,467	684,467

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.5 Fair values of financial assets and liabilities (continued)

(i) Investment securities

Investment securities comprise interest-bearing debt instruments that are held-to-maturity and classified as available-for-sale financial assets and measured at fair value. The fair value of available-for-sale debt instruments are based on quoted market prices. The fair value of held-to-maturity investment securities is based on market prices.

(ii) Subordinated debt

Subordinated debt represents an interest bearing loan from Ministry of Finance (Note 13) carried at amortized cost in the financial statements. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available for similar financial instruments.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.6 Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes debt instruments on stock exchanges.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

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

31 December 2011	**Level 1** AED '000	**Level 2** AED '000	**Level 3** AED '000
Available for sale financial assets			
- Investment securities – debt	151,426	-	-
Foreign currency forwards	-	74	-
	151,426	74	-

31 December 2010	**Level 1** AED '000	**Level 2** AED '000	**Level 3** AED '000
Available for sale financial assets			
- Investment securities - debt	124,916	-	-
Foreign currency forwards	-	10	-
	124,916	10	-

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.7 Capital management

For assessment of current capital requirements, set at a minimum of 12% by the Central Bank of the UAE, the bank calculates its risk asset ratio in accordance with guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets. This is also in line with the assessment of capital adequacy ratio in accordance with the Basel I Accord and is analysed as follows:

	2011 AED'000	2010 AED'000
Tier 1 capital		
Ordinary share capital	1,385,327	1,154,439
Share premium	110,350	110,350
Statutory and other reserves	1,677,237	1,180,618
Retained earnings	320,418	268,200
Total	3,493,332	2,713,607
Tier 2 capital		
Subordinated debt	684,467	684,467
Total capital base	4,177,799	3,398,074
Risk weighted assets		
On balance sheet	20,044,588	17,395,125
Off balance sheet	276,944	267,797
Total risk weighted assets	20,321,532	17,662,922
Risk asset ratio on total capital base (%)	20.56%	19.24%
Risk asset ratio on tier 1 capital base (%)	17.19%	15.36%
Minimum risk asset ratio required by the UAE Central Bank	12.00%	12.00%

Subordinated debt represents the funds from the Ministry of Finance of the U.A.E. (Note 13).

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.7 Capital management (continued)

3.7.1 Capital structure and capital adequacy as per Basel II requirement as at 31 December 2011

The bank is required to report capital resources and risk-weighted assets under the Basel II Pillar 1 framework, as shown in the following table. The bank has adopted standardised approach for calculation of credit risk and market risk capital charge. On operational risk, alternative standardized approach is followed for capital charge calculation under pillar1.

	2011 AED'000	2010 AED'000
Tier 1 capital		
Share capital	1,385,327	1,154,439
Share premium account	110,350	110,350
Legal reserves	405,488	305,213
General reserves	1,271,749	875,405
Retained earnings	320,418	268,200
	3,493,332	2,713,607
Tier 2 Capital		
Subordinated debt	684,467	684,467
Total regulatory capital	**4,177,799**	**3,398,074**
Risk Weighted Assets		
Credit risk	15,230,739	14,038,282
Market risk	7,761	5,186
Operation risk	608,086	478,771
Total risk weighted assets	15,846,586	14,522,239
Capital adequacy ratio on regulatory capital	26.36%	23.40%
Capital adequacy ratio on Tier 1 capital	22.04%	18.68%

Subordinated debt represents the debt from the Ministry of Finance of the U.A.E. (Note 13)

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.7 Capital management (continued)

3.7.2 Analysis of bank's exposure based on Basel II standardised approach

	On balance sheet gross outstanding	Off balance sheet net exposure after credit conversion	Credit Risk Mitigation (CRM)			Risk weighted Assets
			Exposure before CRM	CRM	After CRM	
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
31 December 2011						
Claims on sovereigns	1,485,227	-	1,485,227	-	1,485,227	-
Claims on PSE's	510,190	-	510,190	-	510,190	-
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	2,359,332	2,361	2,361,693	-	2,361,693	617,055
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	511,433	308,599	820,032	101,756	718,276	718,276
Claims included in the regulatory retail portfolio	14,292,713	27,468	14,312,590	135,661	14,176,929	10,688,633
Claims secured by residential property	3,609,221	-	3,606,037	-	3,606,037	1,697,225
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	561,916	-	238,831	-	238,831	343,710
Higher-risk categories	-	-	-	-	-	-
Other assets	1,586,598	-	1,586,598	-	1,586,598	1,165,840
Total claims	**24,916,630**	**338,428**	**24,921,198**	**237,417**	**24,683,781**	**15,230,739**

Of which :	
Rated exposure	2,871,883
Unrated exposure	22,049,315
Total exposure	24,921,198

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.7 Capital management (continued)

3.7.2 Analysis of bank's exposure based on Basel II standardised approach (continued)

	On balance sheet gross outstanding AED '000	Off balance sheet net exposure after credit conversion AED '000	Credit Risk Mitigation (CRM) Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	Risk weighted Assets AED '000
31 December 2010						
Claims on sovereigns	1,681,268	-	1,681,268	-	1,681,268	-
Claims on PSE's	527,506	-	527,506	-	527,506	-
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	1,357,072	-	1,357,072	-	1,357,072	291,664
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	350,159	304,952	624,160	84,961	539,199	539,199
Claims included in the regulatory retail portfolio	12,109,076	37,492	12,142,731	275,672	11,867,059	9,634,506
Claims secured by residential property	3,866,276	-	3,861,428	-	3,861,428	2,139,833
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	459,269	-	226,286	-	226,286	297,510
Higher-risk categories	-	-	-	-	-	-
Other assets	1,468,633	-	1,468,633	-	1,468,633	1,135,570
Total claims	**21,819,259**	**342,444**	**21,889,084**	**360,633**	**21,528,451**	**14,038,282**

	Exposure before CRM AED '000
Of which :	
Rated exposure	1,884,578
Unrated exposure	20,004,506
Total exposure	21,889,084

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

3.7 Capital management (continued)

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

Market Risk

	Risk Weighted Assets		Capital Charge	
	2011 AED '000	2010 AED '000	2011 AED '000	2010 AED '000
Foreign exchange risk	7,761	5,186	931	622

Capital charge for year ended 31 December 2011 has been calculated at 12% (2010: 12%)

3.7.4 Gross exposures and credit risk mitigation

	Exposures		**Risk Weighted Assets**	
	2011 AED '000	**2010** AED '000	**2011** AED '000	**2010** AED '000
Gross exposure prior to Credit Risk Mitigation	24,921,198	21,889,084	15,435,143	14,329,997
Less: Exposures covered by eligible financial collateral	(237,417)	(360,633)	(204,404)	(291,715)
Net Exposures after Credit Risk Mitigation	24,683,781	21,528,451	15,230,739	14,038,282

Notes to the financial statements for the year ended 31 December 2011 (continued)

4 Critical accounting estimates, and judgements in applying accounting policies

The bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting policies and management judgement for certain items are especially critical for the bank's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management takes into account the historical loss experience in estimating future cash flows in assessing the loan portfolio for impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A +/-5% change in the provision would increase/decrease the profit by AED 17 million (2010: AED 16.4 million).

(b) Available for sale debt instruments

The bank reviews its available for sale debt instruments to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a available for sale debt instrument before the decrease can be identified with that instrument. This evidence may include observable data indicating that there has been an adverse change in the payment status of counterparties. Management uses estimates based on estimated future cash flows from these debt instruments. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(c) Held-to-maturity investments

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the bank evaluates its intention and ability to hold such investments to maturity. If the bank fails to hold these investments to maturity other than in specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Notes to the financial statements for the year ended 31 December 2011
(continued)

5 Cash and balances with the UAE Central Bank

	2011 AED'000	2010 AED'000
Cash in hand (Note 28)	358,966	253,791
Balances with the UAE Central Bank (Note 28)	-	285,576
Statutory deposit with the UAE Central Bank	1,385,227	905,692
Certificates of deposit with the UAE Central Bank	100,000	490,000
	1,844,193	1,935,059

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the bank. Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate 0.55% (2010: 0.80% to 1.00%) per annum.

6 Due from other banks

	2011 AED'000	2010 AED'000
Placements with other banks	1,640,467	1,089,210
Demand deposits	254,544	114,907
Clearing account balances	77,240	99,090
	1,972,251	1,303,207

Placements with other banks carry an interest rate in the range of 0.12% to1.28% (2010: 0.18% to 0.55%) per annum.

Notes to the financial statements for the year ended 31 December 2011 (continued)

7 Loans and advances

		2011 AED'000	2010 AED'000
7(a) Loans and advances			
Retail loans		18,345,762	16,320,027
Corporate loans		360,686	389,608
Total loans and advances	7 (b)	18,706,448	16,709,635
Provision for impairment	7 (c)	(337,978)	(307,894)
Net loans and advances		18,368,470	16,401,741
7(b) Analysis of loans and advances			
Loans		18,316,740	16,277,480
Overdrafts		307,482	340,325
Loans against trust receipts		64,566	71,573
Bills discounted		13,170	14,285
Others		4,490	5,972
Total loans and advances		18,706,448	16,709,635

7(c) Provision for impairment

31 December 2011	**Retail loans** AED'000	**Corporate loans** AED'000	**Total** AED'000
Balance brought forward	269,034	38,860	307,894
Impairment charge/ (release) (Note 7(d))	344,753	(4,668)	340,085
Written off during the year	(308,436)	(1,565)	(310,001)
Balance carried forward	305,351	32,627	337,978
31 December 2010			
Balance brought forward	301,022	45,714	346,736
Impairment charge/ (release) (Note 7(d))	329,240	(2,084)	327,156
Written off during the year	(361,228)	(4,770)	(365,998)
Balance carried forward	269,034	38,860	307,894

Notes to the financial statements for the year ended 31 December 2011 (continued)

7 Loans and advances (continued)

7(d) Impairment charge/ (release) on loans and advances net of write (back)/off

31 December 2011	Retail loans AED'000	Corporate loans AED'000	Total AED'000
Impairment charge / (release)	344,753	(4,668)	340,085
Net recovery during the year	(39,073)	6	(39,067)
	305,680	(4,662)	301,018
31 December 2010			
Impairment charge	329,240	(2,084)	327,156
Net recovery during the year	(57,407)	25	(57,382)
	271,833	(2,059)	269,774

Net recovery mainly represents amounts recovered from fully written off loans.

7(e) Classified loans and advances

At 31 December 2011 the aggregate amount of individually impaired loans amounted to AED 474.12 million (31 December 2010: AED 411.52 million), these amounts do not take into account the value of the collateral. The provisions in relation to such loans amounted to AED 338.0 million as at 31 December 2011 (31 December 2010: AED 307.9 million).

8 Investment securities

8(a) Total investment securities

	2011 AED'000	2010 AED'000
Available-for-sale securities		
Quoted debt securities	151,426	124,916
Held-to-maturity securities		
Quoted debt securities	1,012,387	643,067
Total	1,163,813	767,983

Notes to the financial statements for the year ended 31 December 2011 (continued)

8 Investment securities (continued)

8(b) Movement in investment securities

	Available -for-sale securities	Held – to – maturity securities	Total
	AED'000	AED'000	AED'000
At 1 January 2010	110,869	287,458	398,327
Purchases	3,673	437,595	441,268
Maturity	(1,239)	(84,479)	(85,718)
Net changes in fair value (Note 18)	11,613	-	11,613
Amortisation of discount	-	2,493	2,493
At 31 December 2010	124,916	643,067	767,983
Purchases	37,013	423,770	460,783
Maturity	(18,365)	(55,095)	(73,460)
Net changes in fair value (Note 18)	7,862	-	7,862
Amortisation of discount	-	645	645
At 31 December 2011	151,426	1,012,387	1,163,813

8(c) Income from investment securities

	2011	2010
	AED'000	AED'000
Interest income on debt securities	49,287	11,936
Release of fair value loss to income statement on disposal of available-for-sale investment securities (Note 18)	-	(1,221)
Other investment income	28	2,638
	49,315	13,353

Notes to the financial statements for the year ended 31 December 2011 (continued)

8 Investment securities (continued)

8 (d) Investment position as at 31 December 2011

As at 31 December 2011

Counter party	Maturity Date	Purchase Cost AED'000	Carrying value AED'000
Held to maturity investments			
Govt.of Dubai Bonds	23-Apr-13	190,657	195,055
DEWA Sukuk	16-Jun-13	50,000	50,000
Emirates Bank Bonds	30-Apr-12	36,877	36,765
HSBC Bonds	30-Apr-13	42,334	42,644
ADCB Bonds	21-Nov-13	258,798	255,240
DOF Sukuk	03-Nov-14	50,025	50,000
Dewa Bonds	22-Apr-15	77,881	76,797
Dewa Bonds	21-Oct-16	134,032	134,367
Wings FZCO Bonds	15-Jun-12	22,621	23,481
Emirates Airlines FRN	08-Jun-16	73,297	73,460
ADIB Sukuk	04-Nov-15	37,648	37,558
Qatar National Bank Finance Bond	16-Nov-15	37,051	37,020
		1,011,221	1,012,387

	Maturity Date	Purchase Cost AED'000	Carrying value AED'000	Fair value reserve AED'000
Available-for-sale investments				
Dubai Islamic Bank Sukuk	22-Mar-12	18,365	18,098	(267)
JAFZA Sukuk	27-Nov-12	101,515	92,362	(9,153)
Dewa Bonds	22-Apr-15	3,673	3,971	298
First Gulf Bank Sukuk	02-Aug-16	37,013	36,995	(18)
		160,566	151,426	(9,140)
Total		1,171,787	1,163,813	(9,140)

Notes to the financial statements for the year ended 31 December 2011 (continued)

8 Investment securities (continued)

8 (d) Investment position as at 31 December 2010 (continued)

As at 31 December 2010

Counter party	Maturity Date	Purchase Cost	Carrying value
		AED'000	AED'000
Held to maturity investments			
Emirates Airlines Bonds	24-Mar-11	36,730	36,730
Emirates Airlines CLN	24-Mar-11	18,365	18,365
Govt.of Dubai Bonds	23-Apr-13	190,657	191,347
DEWA Sukuk	16-Jun-13	50,000	50,000
Emirates Bank Bonds	30-Apr-12	36,877	36,868
HSBC Bonds	30-Apr-13	42,334	42,377
ADCB Bonds	21-Nov-13	104,050	103,938
DOF Sukuk	03-Nov-14	50,025	50,000
Dewa Bonds	22-Apr-15	77,881	77,798
Dewa Bonds	21-Oct-16	35,628	35,644
		642,547	643,067

	Maturity Date	Purchase Cost	Carrying value	Fair value reserve
		AED'000	AED'000	AED'000
Available-for-sale investments				
Sharjah Islamic Bank Sukuk	22-Oct-11	18,365	17,479	(886)
Dubai Islamic Bank Sukuk	22-Mar-12	18,365	17,112	(1,253)
JAFZA Sukuk	27-Nov-12	101,515	86,417	(15,098)
Dewa Bonds	22-Apr-15	3,673	3,908	235
		141,918	124,916	(17,002)
Total		784,465	767,983	(17,002)

Notes to the financial statements for the year ended 31 December 2011 (continued)

9 Property and equipment

	Land and Buildings	Leasehold Improvements	Other fixed assets	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
1 January 2010	83,197	48,089	209,419	445,068	785,773
Additions	1,382	507	14,469	188,453	204,811
Transfers	385,232	14,200	32,646	(432,078)	-
Disposals/write off	-	-	(611)	-	(611)
31 December 2010	469,811	62,796	255,923	201,443	989,973
Additions	6,570	717	24,098	230,631	262,016
Transfers	26,916	30,826	99,551	(157,293)	-
Disposals/write off			(10,960)	(3,104)	(14,064)
31 December 2011	503,297	94,339	368,612	271,677	1,237,925
Depreciation					
1 January 2010	11,045	28,643	128,714	-	168,402
Charge for the year	6,344	7,650	36,154	-	50,148
Disposals/write off			(525)	-	(525)
31 December 2010	17,389	36,293	164,343	-	218,025
Charge for the year	14,676	10,815	52,565	-	78,056
Disposals/write off	-	-	(10,323)	-	(10,323)
31 December 2011	32,065	47,108	206,585	-	285,758
Net book amounts					
31 December 2011	471,232	47,231	162,027	271,677	952,167
31 December 2010	452,422	26,503	91,580	201,443	771,948

Other fixed assets include computer equipment, furniture and fixtures, equipment and motor vehicles. Capital work in progress mainly comprise of the costs pertaining to the new core banking system being implemented by the Bank which is scheduled to be completed in the next financial year.

Notes to the financial statements for the year ended 31 December 2011 (continued)

	2011 AED'000	2010 AED'000

10 Other assets

	2011 AED'000	2010 AED'000
Interest receivable	144,957	124,381
Prepayments and deposits	46,996	35,434
Others	9,690	40,198
	201,643	200,013

11 Due to other banks

	2011 AED'000	2010 AED'000
Term deposits	236,000	100,000
Current account balance with UAE Central Bank (Note 28)	97,399	-
Demand deposits	1,072	469
	334,471	100,469

12 Due to customers

	2011 AED'000	2010 AED'000
Time deposits	9,333,198	9,629,748
Current accounts	6,326,947	5,330,185
Savings deposits	1,912,133	924,316
Call deposits	717,887	485,880
	18,290,165	16,370,129

Time deposits include AED 213 million (2010: AED 432.77 million) held by the bank as cash collateral for loans and advances granted to customers.

13 Subordinated debt

Subordinated debt of AED 684.47 million comprises of funds received from the UAE Ministry of Finance (MOF) via an agreement dated 31 December 2009. The funds were received as part of a facility set up by the UAE Central Bank to provide liquidity support to banks operating in the UAE and for stimulating and maintaining economic activity in the Country. The fund is repayable in five years from the date of agreement with an option to extend for a further 2 years. Interest during the tenor of the deposits is payable every three months at the rate of 4% for the first two years, 4.5% in year three, 5% in Year four and 5.25% from year five to seven.

Notes to the financial statements for the year ended 31 December 2011 (continued)

14 Other liabilities

	2011 AED'000	2010 AED'000
Interest payable	102,359	155,244
Accrued expenses	145,345	140,173
Managers cheques issued	62,800	89,370
Others	132,991	78,133
	443,495	462,920

15 Provision for employees' end of service benefits

	2011 AED'000	2010 AED'000
At 1 January	45,608	36,387
Charge for the year (Note 24)	11,776	10,561
Payment during the year	(4,317)	(1,340)
At 31 December	53,067	45,608

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2011, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 4.25% (2010: 6%). Under this method an assessment has been made of an employee's expected service life with the bank and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 4.8% (2010: 4.7%).

16 Share capital

The authorised, issued and fully paid share capital of the bank comprises 1,385.33 million shares of AED 1 each (2010: 1,154.44 million shares of AED 1 each).

At the meeting of the shareholders held on 27 February 2011, the shareholders of the bank approved a stock dividend (issue of bonus shares) in respect of 2010 at 20% of the issued and paid up capital amounting to AED 230.88 million (2009: AED 192.4 million) and cash dividend at 20% of the issued and paid up capital amounting to AED 230.88 million (2009: AED 96.2 million) and, accordingly the authorised and issued share capital was increased by this amount.

Notes to the financial statements for the year ended 31 December 2011
(continued)

17 Share premium

Share premium represents amounts received from shareholders in excess of the nominal value of the shares allotted to them. In accordance with the Articles of Association of the bank, share premium is a part of the legal reserve of the bank and is not available for distribution.

18 Other reserves

	Legal reserve AED'000	Voluntary reserve AED'000	General banking risk reserve AED'000	Credit risk reserve AED'000	Fair value reserve AED'000	Total AED'000
At 1 January 2010	305,213	192,407	200,000	500,000	(29,836)	1,167,784
Changes during the year	100,275	38,482	150,000	200,000	11,613	500,370
Release of fair value loss to income statement on disposal of available-for-sale investment securities (Note 8(c))	-	-	-	-	1,221	1,221
At 31 December 2010	405,488	230,889	350,000	700,000	(17,002)	1,669,375
Changes during the year	120,354	46,178	150,000	50,000	7,862	374,394
At 31 December 2011	525,842	277,067	500,000	750,000	(9,140)	2,043,769

In accordance with the UAE Federal Law No (8) of 1984 as amended, and the UAE Union Law No. 10 of 1980, as amended, 10% of the net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

In accordance with the Articles of Association of the bank, 10% of the net profit for the year is transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. This reserve is available for distribution.

The bank maintains a general reserve to address the risks inherent in the bank's operating environment. Contributions to this reserve are made at the discretion of the Directors.

The bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors.

Notes to the financial statements for the year ended 31 December 2011 (continued)

19 Contingencies and commitments

	2011 AED'000	2010 AED'000
Commitments to extend credit	5,456,731	4,961,388
Guarantees	346,037	374,580
Letters of credit	34,529	51,421
Acceptances	21,157	17,506
Capital commitments	4,469	7,996
	5,862,923	5,412,891

Letters of credit are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the bank does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. The commitments to extend credit amounting to AED 5,268 million are revocable at the option of the bank.

20 Forward foreign exchange contracts

Forward foreign exchange contracts comprise commitments to purchase foreign and domestic currencies on behalf of customers and in respect of the bank's undelivered spot transactions.

The bank had the following forward exchange transactions outstanding.

	Contract amount AED'000	Fair value AED'000
31 December 2011	208,173	74
31 December 2010	47,632	10

The positive fair values of the outstanding foreign exchange forward contracts are recorded in other assets.

Notes to the financial statements for the year ended 31 December 2011 (continued)

21 Interest income and expense

	2011 AED'000	2010 AED'000
Interest income		
Commercial loans and overdrafts	1,125,781	855,404
Retail loans	555,323	570,081
Credit cards	606,611	556,829
Auto loans	61,018	42,831
Other banks	5,324	6,703
Deposits with the UAE Central Bank	3,047	4,190
Others	8,446	10,743
	2,365,550	2,046,781
Interest expense		
Due to customers	353,124	402,577
Subordinated debt	27,759	27,759
Borrowings from other banks	156	7,883
	381,039	438,219

22 Fee and commission income

	2011 AED'000	2010 AED'000
Credit Cards	188,650	184,703
Commercial loans	143,758	174,007
Retail loans	29,754	39,633
Mortgage Loans	20,874	17,508
Auto Loans	13,251	10,345
Trade Finance	10,539	9,957
Investments	43,471	39,858
Others	72,457	53,787
	522,754	529,798

23 Operating expenses

	2011 AED'000	2010 AED'000
Staff costs (Note 24)	544,116	461,955
Occupancy costs	85,420	77,851
Marketing expenses	42,500	31,340
Depreciation (Note 9)	78,056	50,148
Services	46,641	39,208
Legal and consultancy fees	46,583	40,991
Computer expenses	39,762	30,339
Outsourced staff costs	198,921	175,922
Others	50,898	33,248
	1,132,897	941,002

Notes to the financial statements for the year ended 31 December 2011 (continued)

24 Staff costs

	2011 AED'000	2010 AED'000
Salaries and allowances	494,566	429,659
Pension	9,344	6,665
End of service benefits (Note 15)	11,776	10,561
Staff training	2,840	778
Others	25,590	14,292
	544,116	461,955

25 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. In accordance with IAS 33 "Earnings Per Share", the impact of bonus shares issued has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

	2011	2010
Net profit for the year in AED	1,203,540,353	1,002,751,403
Weighted average number of shares in issue	1,385,326,800	1,385,326,800
Basic earnings per share in AED	0.87	0.72

There were no potentially dilutive shares as at 31 December 2011 and 31 December 2010.

26 Dividends

At the meeting held on 22 January 2012, the Board of Directors proposed a stock dividend (issue of bonus shares) of 10% and a cash dividend of 25% of the issued and paid up capital. Subsequently by a circular resolution dated 25 February 2012, the Directors recommended an increase in the cash dividend to 30% of the issued and paid up capital. This will amount to total dividend of AED 554.13 million in respect of the year ended 31 December 2011 (2010: 20% stock dividend and 20% cash dividend amounting to AED 461.78 million).

Dividends are not accounted for until they have been approved at the Annual General Meeting and, accordingly, the proposed dividend will be accounted for as an appropriation of retained earnings of the year ending 31 December 2011 after it has been approved by the shareholders.

Notes to the financial statements for the year ended 31 December 2011 (continued)

27 Related party transactions and balances

Related parties comprise shareholders, key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. During the year, the bank entered into significant transactions with related parties in the ordinary course of business. The transactions and balances arising from these transactions are as follows:

	2011 AED'000	2010 AED'000
Transactions during the year		
Interest income	190	1,148
Interest expense	18,616	28,208
Commission income	637	474
Directors' remuneration	8,147	2,535
Remuneration payable to key management personnel	33,416	32,317
Balances at 31 December:		
Loans and advances:		
- Shareholders and their related companies	-	2,543
- Directors and their related companies	2,235	388
	2,235	2,931
Due to customers:		
- Shareholders and their related companies	934,513	1,104,222
- Directors and their related companies	36,733	175,973
	971,246	1,280,195
Irrevocable commitments, contingent liabilities and forward contracts		
- Shareholders and their related companies	51,920	48,241
- Directors and their related companies	478	379
	52,398	48,620

28 Cash and cash equivalents

	2011 AED'000	2010 AED'000
Cash in hand (Note 5)	358,966	253,791
Current account balance with UAE Central Bank (note 5 & 11)	(97,399)	285,576
Due from other banks (Note 6)	1,972,251	1,303,207
	2,233,818	1,842,574

Notes to the financial statements for the year ended 31 December 2011 (continued)

29 Segments analysis

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Executive Committee (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

The bank has three main business segments:

- Retail banking – incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages;
- Business banking – incorporating transactions with corporate bodies including government and public bodies, small and medium entities; and comprising of loans, advances, deposits and trade finance transactions; and
- Treasury – incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the UAE Central Bank, none of which constitute a separately reportable segment.

As the bank's segment operations are all financial with a majority of revenues deriving from interest and fees and commission income, the Executive Committee relies primarily on revenue and segmental results to assess the performance of the segment.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment revenue. Interest charged for these funds is based on the bank's cost of funds policy. There are no other material items of income or expense between the business segments.

The bank's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

Notes to the financial statements for the year ended 31 December 2011 (continued)

29 Segments analysis (continued)

The segment information provided to the Executive Committee for the reportable segments for the year ended 31 December 2011 is as follows:

	Retail banking	Corporate banking	Treasury and others	Unallocated Cost	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2011					
External interest income	2,327,391	29,788	8,371	-	2,365,550
External interest expense	(234,027)	(94,753)	(52,259)	-	(381,039)
Interest revenues from other segments	(114,829)	73,103	41,726	-	-
Net Interest income	1,978,535	8,138	(2,162)	-	1,984,511
Non interest income	551,843	21,558	79,543	-	652,944
Operating income	2,530,378	29,696	77,381	-	2,637,455
Operating expense excluding depreciation	(790,373)	(53,437)	(5,259)	(205,772)	(1,054,841)
Depreciation	(41,548)	(1,445)	(65)	(34,998)	(78,056)
Total Operating expense	(831,921)	(54,882)	(5,324)	(240,770)	(1,132,897)
Impairment charge net of write off / recovery	(305,680)	4,662	-	-	(301,018)
Net profit / (loss)	1,392,777	(20,524)	72,057	(240,770)	1,203,540
Segment assets	18,545,904	328,201	4,552,347	-	23,426,452
Unallocated assets					1,076,085
Total assets	18,545,904	328,201	4,552,347		24,502,537
Segment liabilities	11,588,574	5,784,399	2,187,229	-	19,560,202
Unallocated liabilities					245,463
Total liabilities	11,588,574	5,784,399	2,187,229	-	19,805,665

Notes to the financial statements for the year ended 31 December 2011 (continued)

29 Segments analysis (continued)

	Retail banking	Corporate banking	Treasury and others	Unallocated Cost	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2010					
External interest income	1,998,925	36,961	10,895	-	2,046,781
External interest expense	(266,271)	(103,667)	(68,281)	-	(438,219)
Interest revenues from other segments	(128,197)	73,278	56,436	(1,517)	-
Net Interest income	1,604,457	6,572	(950)	(1,517)	1,608,562
Non interest income	551,925	18,440	34,600		604,965
Operating income	2,156,382	25,012	33,650	(1,517)	2,213,527
Operating expense excluding depreciation	(673,945)	(48,182)	(4,946)	(163,781)	(890,854)
Depreciation	(27,881)	(871)	(46)	(21,350)	(50,148)
Total Operating expense	(701,826)	(49,053)	(4,992)	(185,131)	(941,002)
Impairment charge net of write off / recovery	(271,833)	2,059	-	-	(269,774)
Net profit / (loss)	1,182,723	(21,982)	28,658	(186,648)	1,002,751
Segment assets	16,556,715	350,862	3,643,138	-	20,550,715
Unallocated assets					829,236
Total assets	16,556,715	350,862	3,643,138	-	21,379,951
Segment liabilities	11,042,573	4,964,543	1,464,391	-	17,471,507
Unallocated liabilities					192,086
Total liabilities	11,042,573	4,964,543	1,464,391	-	17,663,593

Notes to the financial statements for the year ended 31 December 2011 (continued)

30 Fiduciary activities

The bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2011, such assets amounted to AED 554.21 million (2010: AED 261.28 million) and are excluded from these financial statements of the bank.

31 Assets and liabilities maturity profile

The table below analyses assets and liabilities of the bank into relevant maturity groupings based on the remaining years from the balance sheet date to the contractual maturity date.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

At 31 December 2011	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	1,744,193	100,000		-	1,844,193
Due from other banks	1,972,251	-			1,972,251
Loans and advances	2,450,068	415,948	4,453,406	11,049,048	18,368,470
Investment securities	151,426	60,246	952,141	-	1,163,813
Property and equipment, and other assets	178,208	20,569	2,846	952,187	1,153,810
Total	6,496,146	596,763	5,408,393	12,001,235	24,502,537
Liabilities and shareholders' equity					
Due to other banks	334,471	-	-	-	334,471
Due to customers	15,588,972	2,701,193	-	-	18,290,165
Subordinated debt			684,467	-	684,467
Other liabilities and provision for employees' end of service benefits	443,495	-	-	53,067	496,562
Shareholders' equity	-	-	-	4,696,872	4,696,872
Total	16,366,938	2,701,193	684,467	4,749,939	24,502,537
Net liquidity gap	(9,870,792)	(2,104,430)	4,723,926	7,251,296	-
At 31 December 2010					
Total assets	6,358,043	731,729	2,904,252	11,385,927	21,379,951
Total liabilities and equity	14,644,458	2,286,583	2,477	4,446,433	21,379,951
Net liquidity gap	(8,286,415)	(1,554,854)	2,901,775	6,939,494	-