ANNUAL REPORT 2009

بنك رأس الخيمة الوطني (ش.م.ع)

RAKBANK

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

CONTENTS

بـنـك رأس الـخـيـمـة الـوطـنـي (ش.م.ع)

RAKBANK

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

Head Office	RAKBANK Building, Oman Street, P.O. Box: 5300 Al-Nakheel, Ras Al Khaimah	Telephone: 07-2062222 Telefax: 07-2283238 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: 04-337 0081 Telefax: 04-337 0402

BRANCHES

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

Badr Branch
P.O. Box: 5300, Ras Al Khaimah, U.A.E.
Telephone: 07-2062402
Telefax: 07-2448811

Al Dhait Branch
P.O. Box: 5300, Ras Al Khaimah, U.A.E.
Telephone: 07-2062252
Telefax: 07-2351178

RAK Town Branch
P.O. Box: 164,
Ras Al-Khaimah Town, U.A.E.
Telephone: 07-2062202
Telefax: 07-2333932

Al Rams Branch
P.O. Box: 6035, Ras Al Khaimah, U.A.E.
Telephone: 07-2062366
Telefax: 07-2662838

Sha'am Branch
P.O. Box: 6868, Ras Al Khaimah, U.A.E.
Telephone: 07-2062333
Telefax: 07-2667335

Al Manei Branch
P.O. Box: 5300, Ras Al Khaimah, U.A.E.
Telephone: 04-2913960
Telefax: 04-8525757

Deira Branch
P.O. Box: 1531, Dubai, U.A.E.
Telephone: 04-2913623
Telefax: 04-2223738

Deira Souq Branch
P.O. Box: 1531, Deira Dubai, U.A.E.
Telephone: 04-2913599
Telefax: 04-2295040

Bur Dubai Branch
P.O. Box: 1531 Dubai, U.A.E.
Telephone: 04-2915333
Telefax: 04-3968600

Oud Metha Branch
P.O. Box: 1531, Dubai, U.A.E.
Telephone: 04-2915103
Telefax: 04-3370342

Emmar Business Park Branch
P.O. Box 1531, Dubai, U.A.E.
Telephone: 04-2913655
Telefax: 04-3619222

Sh. Zayed Road Branch
P.O. Box 28221, Dubai, U.A.E.
Telephone: 04-2913700
Telefax: 04-3435281

Marina Diamond Branch
P.O. Box 1531, Dubai, U.A.E.
Telephone: 04-4224811
Telefax: 04-4224813

Ibn Battuta Mall Branch
P.O. Box 1531, Dubai. U.A.E.
Telephone: 04-3685890
Telefax: 04-3685891

Al Qouz Branch
P.O. Box 1531, Dubai U.A.E.
Telephone: 04-2913775
Telefax: 04-3384622

Al Qusais Branch
P.O. Box 1531, Dubai, U.A.E.
Telephone: 04-2913505
Telefax: 04-2579364

Mirdif Branch
P.O. Box 1531, Dubai, U.A.E.
Telephone: 04-2916100
Telefax: 04-2845757

Sharjah Branch
P.O.Box 41010, Sharjah, U.A.E.
Telephone: 06-5988018
Telefax: 06-5746363

Sharjah Ind. Area Branch
P.O.Box 41010, Sharjah, U.A.E.
Telephone: 06-5988200
Telefax: 06-5353669

Khorfakhan Branch
P.O. Box: 10114, Sharjah, U.A.E.
Telephone: 09-2039550
Telefax: 09-2371800

Kalba Branch
P.O.Box: 11171, Sharjah, U.A.E.
Telephone: 09-2039500
Telefax: 09-2778881

Ajman Branch
P.O. Box 31011, Ajman. U.A.E.
Telephone: 06-5988266
Telefax : 06-7485163

Abu Dhabi Branch
P.O. Box: 2289, Abu Dhabi, U.A.E.
Telephone: 02-4127100
Telefax: 02-6444318

Khalidiya Branch
P.O. Box: 2289, Abu Dhabi, U.A.E.
Telephone: 02-4127600
Telefax: 02-6656305

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

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

Auditors
PricewaterhouseCoopers,
Level 40 Emirates Towers
P.O. Box: 11907, Dubai,
Telephone: 04-3043100
Telefax: 04-3304100

Shareholders

The Government of Ras Al-Khaimah	52.75%
Citizens of the United Arab Emirates	35.58%
Others	11.67%

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. Majid Saif Al Ghurair	Member
Mr. Ali Samir Al Shihabi	Member
Mr. Yousuf Obaid Essa Al Nuaimi	Member
Mr. Ahmed Essa Al Naeem	Member

Management

Mr. Graham Honeybill	General Manager
Mr. Ian Hodges	Head of Personal Banking
Mr. Anil Sukhia	Head of Corporate Banking
Mr. Malcolm D'Souza	Head of Treasury and International
Mr. Steve O Hanlon	Chief Operating Officer
Mr. Dharmesh Pandya	Head of Finance
Mr. Saleh Ali Saleh Saeed Al Zaabi	Head of Wealth Management and Branches

Directors' report to the shareholders

Management Discussion & Analysis

We are pleased to present the annual report of your Bank for 2009. The net profit for the year amounted to AED 726.15 million, an increase of 14.2% over the previous year. The operating environment in 2009 was without doubt the most difficult the Bank has experienced in its history and the very positive results which have been achieved are a credit to the hard work and commitment of RAKBANK's team during this period of severe economic stress.

The liquidity problems which first appeared at the end of 2008 continued through to the first half of 2009 before improvement was seen following concerted action by the authorities. Whilst liquidity improved this was seen mainly in the interbank market not in the more important customer deposit segment where it could be used for customer advances. However there remains a significant disparity in customer deposit rates between the UAE Dirham and the U.S. Dollar despite the fixed exchange rate. This had the effect of significantly increasing customer borrowing costs which allied with the comparative shortage of available usable liquidity was a further dampener on economic activity.

At the end of the first quarter we began to see a deterioration in certain of our retail segments notably credit card as a result of companies making their employees redundant and a number of those individuals leaving the country without settling their obligations to banks. The bulk of the increase in bad debt provision is a consequence of this situation. The retail credit collections team are to be commended for their excellent performance during the past year in limiting delinquencies to the level shown which is one of the lowest amongst banks with a similar business profile.

Towards the end of the year we saw an improvement in the bad debt position which if maintained should see delinquencies falling to more normal figures in the second quarter of 2010.

Financial Performance

The 2009 net profit was AED 726.15 million compared with AED 635.9 million the previous year. There has been no change in the Bank's core business which maintains its retail focus on personal lending, credit cards, finance of small and medium enterprises and on mortgage finance. Despite liquidity issues slowing down the Bank's lending during the first part of the year, RAKBANK never stopped lending and by year end had achieved a 23% increase in total assets to AED 17.12 billion. Complementing this growth in assets, other income consisting of fees, commissions, foreign exchange, investment and other operating income grew by 8% to AED 495.22 million. The Bank remains one of the leading issuers of credit cards in the UAE and it also retains a strong presence in the retail mortgage market. As business incomes have been affected by the downturn in the economy, some personal and mortgage borrowers have approached the Bank to reschedule loans. In the majority of cases the Bank has accommodated these requests within the existing terms and conditions of its product programme guidelines.

Directors' report to the shareholders (continued)

The growth in the asset book has been supported by a combination of increases in customer deposits and shareholders equity. The increase in customer deposits was achieved through growth in both fixed term deposits and transaction accounts.

Investment securities outstanding have declined to AED 398.33 million on settlement of maturing investments. For transparency the Bank has provided in 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 the present information available to us no loss is anticipated. The increase under property and equipment reflects the costs incurred on two new Operations Centres. The first is located in the Dubai Silicon Oasis Free Zone whilst the second is located in Ras Al Khaimah. When completed and occupied between March and May 2010 these two centres will provide the Bank with state-of-the-art premises to support its continuing expansion whilst at the same time providing full disaster contingency back up for its I.T. and other operations.

The Bank continues to expand and the growth in operating expenses seen during 2009 is reflective of this.

During 2009, AED 360 million of the Bank's EMTN programme matured and was settled. The opportunity was taken to repurchase a further USD 59 million of this programme. The Bank will consider further repurchases in order to reduce liability on maturity given the present state of the market.

The Bank's capital adequacy ratio at the end of the year was 14.2% composed entirely of Tier 1 capital against a current minimum of 11% Tier 1 capital prescribed by the Central Bank of the UAE. With the approval of the Ministry of Finance, the Bank has converted its liquidity support loans given in 2008 into 7 year loans dating from 31st December 2009 which because of their term are eligible for Tier 2 status. If that finance is also taken into account then the Bank's overall capital adequacy ratio rises to 18.8% a figure which will be further enhanced on approval by the shareholders of the proposed dividend.

Notwithstanding the significant challenges the Bank faced during 2009 it was particularly rewarding that we were adjudged Top Service Quality Bank in the UAE by the UAE by the Ethos Consulting poll for the 4th year running. The entire RAKBANK team are to be commended for this excellent performance.

The Bank currently has 27 branches across the Emirates with plans to open a further 4 during 2010.

Directors' report to the shareholders (continued)

Rating

The Bank is currently rated by the following leading rating agencies. Their recent ratings are 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 our ratings carry a stable outlook.

Dividend

The Directors have recommended a stock dividend of 20% and a cash dividend of 10%. The Directors consider that the Bank is well placed to meet the considerable challenges which will be faced during 2010. Nevertheless they believe that prudence is required in the distribution of dividend and the recommendation made will result in 90% of net profit being retained within the Bank's shareholders' equity thereby increasing capital and reserves to strengthen the Bank's overall position.

The Bank is increasing in size and complexity and the Directors consider it prudent to increase the general banking risk reserve from AED 150 million to AED 200 million. The Bank has robust credit policies and underwriting but is not immune to external shocks outside of its control. For that reason, the Directors believe it prudent to increase credit risk reserve by AED 200 million to AED 500 million. These measures will increase the Bank's shareholders' equity to AED 2.8 billion at 31 December 2009, of which over 65% is represented by retained earnings and other reserves.

Outlook for 2010

The Bank will continue to focus in 2010 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 has avoided many of the pitfalls seen recently and is well positioned to take advantage of business opportunities as they present themselves this year.

Directors' report to the shareholders (continued)

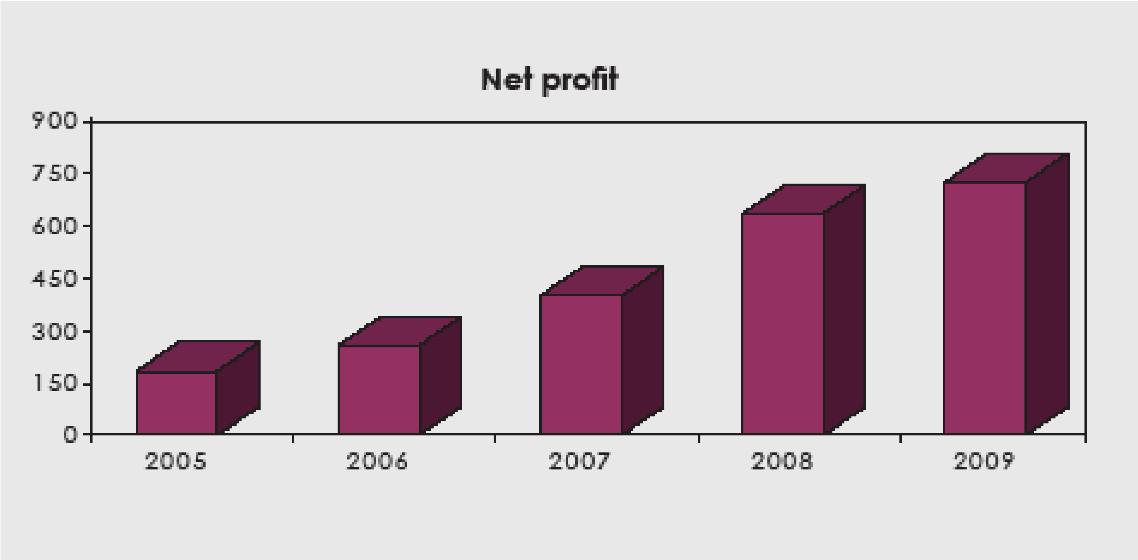
Key to the Bank's success and indeed to the growth of the economy will be sufficient customer deposits at reasonable rates available to increase lending. This is particularly so given the lack of availability of overseas funding which is affecting the market as a whole. Provided that these issues can be resolved going forward into the year then the Bank has confidence in the success of its ongoing strategy.

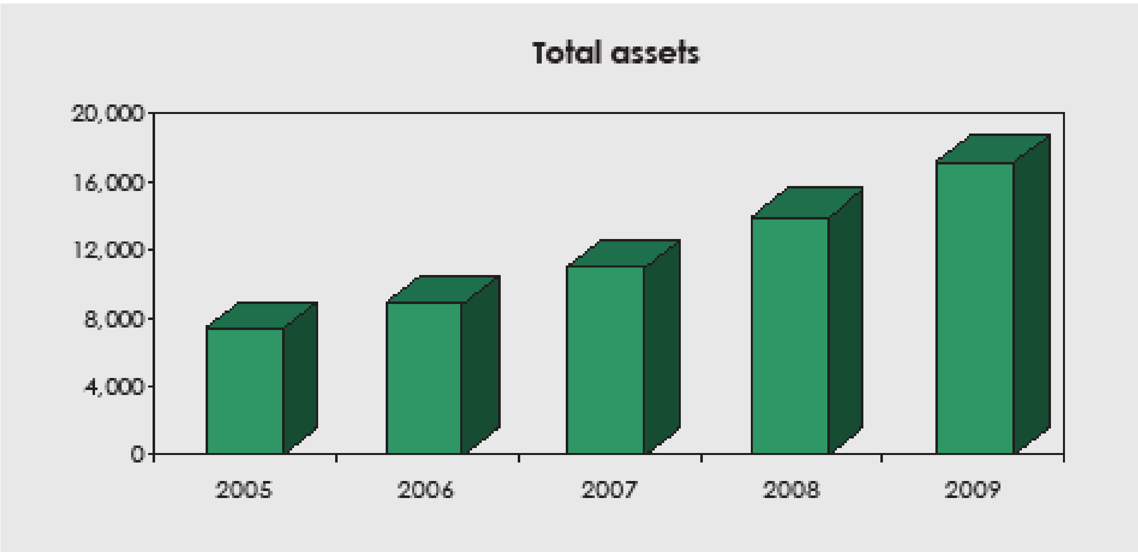
We are grateful for the continued whole-hearted support of His Highness Sheikh Saqr bin Mohamed Al-Qasimi and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the Bank for their outstanding performance during 2009 and the Bank's customers for their continued support.

Board of Directors
7 February 2010

Financial highlights

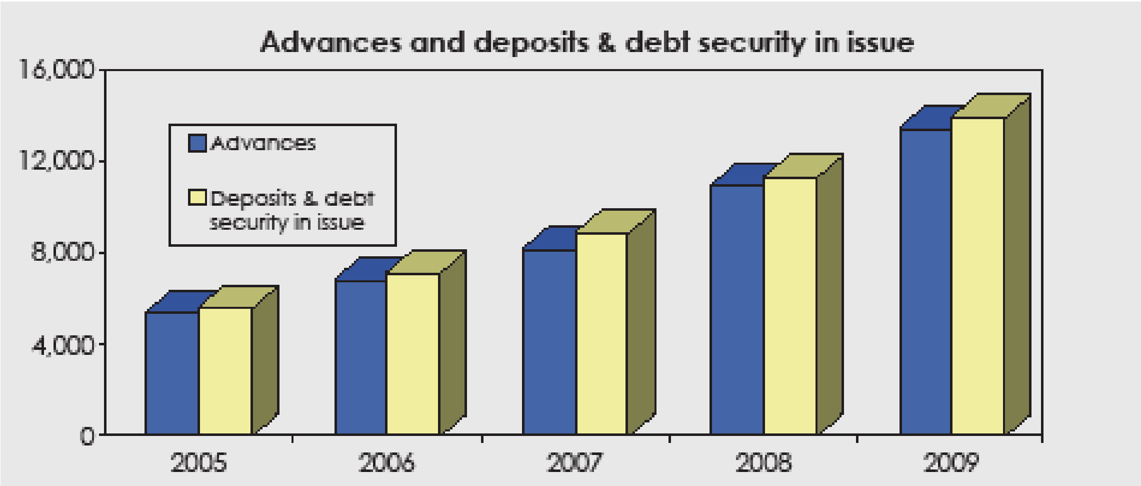
All figures shown are in millions of UAE Dirhams.

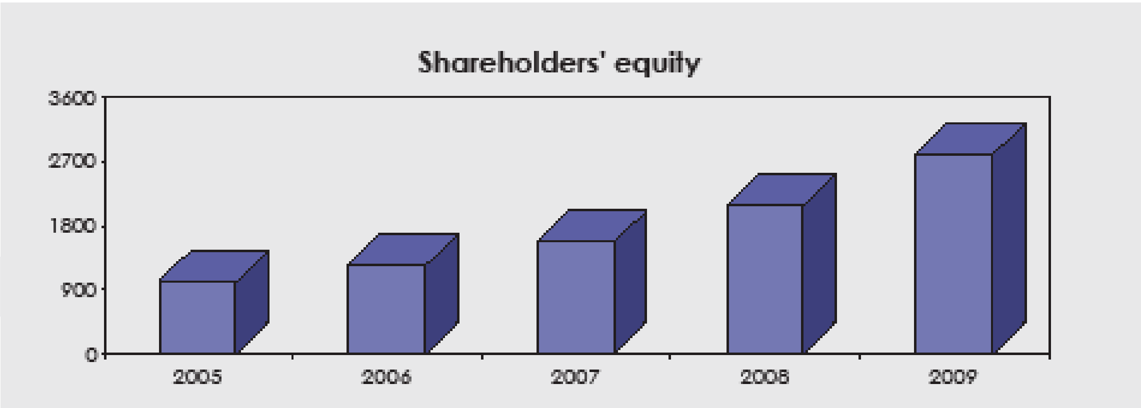


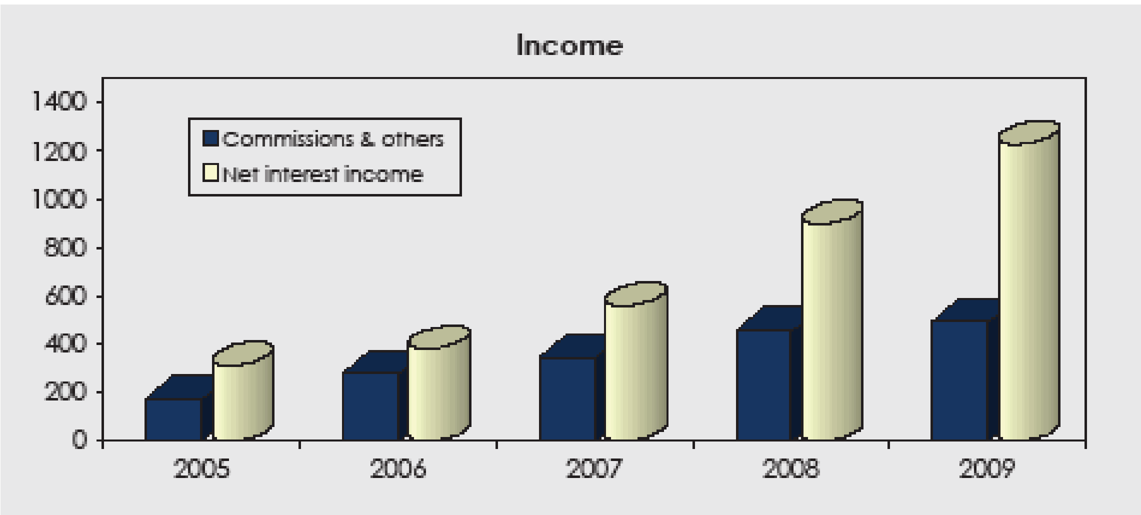


Financial highlights (continued)

All figures shown are in millions of UAE Dirhams.







PRICEWATERHOUSECOOPERS

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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 2009 and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 of 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 of 31 December 2009 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 2009.

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
11 February 2010

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

Balance sheet

	Note	At 31 December 2009 AED'000	2008 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	5	1,044,726	852,925
Due from other banks	6	1,472,985	967,526
Loans and advances	7	13,429,696	10,950,509
Investment securities	8	398,327	645,072
Property and equipment	9	617,371	377,138
Other assets	10	154,511	128,894
Total assets		17,117,616	13,922,064
LIABILITIES			
Due to other banks	11	35,155	185,873
Due to customers	12	12,850,031	9,653,665
Debt security in issue	13	1,068,305	1,644,026
Other liabilities	14	330,762	330,484
Provision for employees' end of service benefits	15	36,387	29,336
Total liabilities		14,320,640	11,843,384
SHAREHOLDERS' EQUITY			
Share capital	16	962,033	740,025
Share premium	17	110,350	110,350
Retained earnings		556,809	456,687
Other reserves	18	1,167,784	771,618
Total shareholders' equity		2,796,976	2,078,680
Total liabilities and shareholders' equity		17,117,616	13,922,064

These financial statements were authorised for issue by the Board of Directors on 7 February 2010 and were signed on its behalf by:

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

....
Graham Honeybill
General Manager

The notes on pages 14 to 69 form an integral part of these financial statements

Income statement

	Note	Year ended 31 December 2009 AED'000	2008 AED'000
Interest income	21	1,616,117	1,171,138
Interest expense	21	(387,099)	(272,956)
Net interest income		1,229,018	898,182
Fee and commission income	22	412,479	344,100
Foreign exchange income		37,262	44,082
Income from investment securities	8(c)	28,265	32,559
Other operating income		17,217	35,998
Operating income		1,724,241	1,354,921
Operating expenses	23	(746,206)	(648,507)
Impairment charge on loans and advances net of write back/off	7(d)	(251,886)	(70,430)
Net profit for the year		726,149	635,984
Earnings per share			
Basic	25	AED 0.75	AED 0.66

The notes on pages 14 to 69 form an integral part of these financial statements

Statement of comprehensive income

		Year ended 31 December	
		2009	2008
	Notes	AED'000	AED'000
Profit for the year		726,149	635,984
Other comprehensive income/(loss):			
Net changes in fair value of available-for-sale investment securities	8(b), 18	29,145	(72,291)
Release of fair value loss/(gain) to income statement on disposal of available-for-sale investment securities		3	(346)
Total comprehensive income for the year		755,297	563,347

The notes on pages 14 to 69 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 2008		616,688	110,350	343,974	505,989	1,577,001
Total comprehensive income for the year		-	-	635,984	(72,637)	563,347
Transfer to legal reserve	18	-	-	(63,599)	63,599	-
Transfer to voluntary reserve	18	-	-	(24,667)	24,667	-
Transfer to credit risk reserve	18	-	-	(175,000)	175,000	-
Transfer to general banking reserve	18	-	-	(75,000)	75,000	-
Issue of bonus shares	16	123,337	-	(123,337)	-	-
Cash dividend	26	-	-	(61,668)	-	(61,668)
At 31 December 2008		740,025	110,350	456,687	771,618	2,078,680
Total comprehensive income for the year		-	-	726,149	29,148	755,297
Transfer to legal reserve	18	-	-	(72,615)	72,615	-
Transfer to voluntary reserve	18	-	-	(44,403)	44,403	-
Transfer to credit risk reserve	18	-	-	(200,000)	200,000	-
Transfer to general banking reserve	18	-	-	(50,000)	50,000	-
Issue of bonus shares	16	222,008	-	(222,008)	-	-
Cash dividend	26	-	-	(37,001)	-	(37,001)
At 31 December 2009		962,033	110,350	556,809	1,167,784	2,796,976

The notes on pages 14 to 69 form an integral part of these financial statements

Cash flow statement

	Notes	Year ended 31 December 2009 AED'000	2008 AED'000
Operating activities			
Net profit for the year		726,149	635,984
Adjustments:			
Net charge for provision for impairment of loans and advances	7(d)	251,886	70,430
Depreciation	23	37,812	26,997
Provision for employees' end of service benefits	15	9,506	10,294
Gain on disposal of property and equipment		-	(105)
Amortisation of discount relating to investment securities held for maturity	8(b)	(4,995)	(78)
Amortisation of discount relating to debt security in issue	13	986	1,042
Release of fair value gain to income statement on disposal of available-for-sale investment securities	8(c)	3	(346)
Operating cash flows before changes in assets and liabilities and payment of employees' end of service benefits		1,021,347	744,218
Payment of employees' end of service benefits	15	(2,455)	(2,970)
Changes in assets and liabilities:			
Statutory deposits with the UAE Central Bank		(121,203)	277,122
Certificate of deposits with the UAE Central Bank with original maturities of over 3 months		(155,000)	-
Due from other banks with original maturities of over 3 months		-	92,071
Loans and advances net of provisions and amounts written off/(back)	7	(2,731,073)	(2,848,456)
Other assets	10	(25,617)	41,195
Due to other banks	11	(150,718)	(47,740)
Due to customers	12	3,196,366	2,414,199
Other liabilities	14	278	71,781
Net cash generated from operating activities		1,031,925	741,420
Investing activities			
Purchase of investment securities	8(b)	(78,327)	(233,603)
Purchase of property and equipment	9	(278,045)	(228,924)
Proceeds from sale/maturity of investment securities	8(b)	359,212	142,473
Proceeds from sale of property and equipment		-	248
Net cash generated from/(used in) investing activities		2,840	(319,806)
Financing activities			
Repurchase/maturity of debt security in issue	13	(576,707)	-
Dividend paid	26	(37,001)	(61,668)
Net cash used in financing activities		(613,708)	(61,668)
Net increase in cash and cash equivalents		421,057	359,946
Cash and cash equivalents, beginning of the year		1,107,783	747,837
Cash and cash equivalents, end of the year	28	1,528,840	1,107,783

The notes on pages 14 to 69 form an integral part of these financial statements

Notes to the financial statements for the year ended 31 December 2009

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, Oman Street, Al Nakheel, Ras Al-Khaimah.

The bank is engaged in providing commercial banking services through a network of twenty-seven branches in the UAE.

2 Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements are 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. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. 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>Standard, amendments and interpretations to published standards that are effective for the bank's accounting periods beginning 1 January 2009</u>

The following applicable new standard, amendments and interpretations to existing standards have been published and are effective for bank's accounting periods beginning 1 January 2009.

- IAS 1 (revised), 'Presentation of financial statements'
- IAS 16 (amendment), 'Property, plant and equipment'
- IAS 19 (amendment), 'Employee benefits'
- IAS 23 (amendment), 'Borrowing costs'
- IFRS 7 (amendment) ' Financial instruments – Disclosures'
- IFRS 8 'Operating segments'
- IFRIC 13, 'Customer loyalty programmes'

Notes to the financial statements for the year ended 31 December 2009 (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Standard, amendments and interpretations to published standards that are effective for accounting periods beginning on or after 1 January 2009 (continued)

Management has assessed the impact of the above standard, amendments and interpretations to published standards on the bank's financial statements and has concluded that they are not relevant to the bank's financial statements, except for the amendment to IAS 1, which will affect the presentation of the statement of changes in equity and the statement of comprehensive income, IFRS 7 which requires the disclosure of fair value hierarchy and IFRS 8, which requires a "management approach" under which segmental information is presented on the same basis as that used for internal reporting purposes. The amendment to IAS 1, IFRS 7 and IFRS 8 do not impact the recognition, measurement or disclosure of specific transactions and other events required by other IFRS.

The application of the amendment to IAS 1, IFRS 7 and IFRS 8 has been adopted in the preparation of these financial statements.

Standard which are not yet effective and have not been early adopted by the bank

The following applicable new standard has been issued but is effective for the bank's accounting periods beginning on or after 1 January 2010 and have not been early adopted by the bank:

- IFRS 9, 'Financial instruments part 1: Classification and measurement' effective for annual periods beginning on or after 1 January 2013. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

    - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be 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.

    - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

Notes to the financial statements for the year ended 31 December 2009 (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Standards which are not yet effective and have not been early adopted by the bank (continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The bank is considering the implications of the standard, the impact on the bank and the timing of its adoption by the bank.

- 'Improvements to IFRS' were issued in May 2008 and April 2009. No material changes to accounting policies are expected as a result of these amendments.

(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 carried 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.

Notes to the financial statements for the year ended 31 December 2009 (continued)

2 Significant accounting policies (continued)

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

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.

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.

Notes to the financial statements for the year ended 31 December 2009 (continued)

2 Significant accounting policies (continued)

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

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 asset is considered to be past due and disclosed only if renegotiated again.

(c) Investment securities

The bank classifies its investment securities in the following categories: held-to-maturity investments; and available-for-sale investment securities. 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-way 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. 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 equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

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.

Notes to the financial statements for the year ended 31 December 2009 (continued)

2 Significant accounting policies (continued)

(c) Investment securities (continued)

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 entity's right to receive payment is established.

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 other investment 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 stated at amortised cost less any amounts written off and provision for impairment, if any.

(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 2009 (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 on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	15
Computer equipment	4-10
Furniture, fixtures and equipment	4 - 5
Leasehold improvements	2– 5
Motor vehicles	3- 4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the balance sheet.

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.

(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 trade and other payables. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE Labour Law for their periods of service up to the balance sheet date.

Notes to the financial statements for the year ended 31 December 2009 (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) Debt security in issue

Debt security in issue is recognised initially at fair value, net of transaction costs incurred. Debt security in issue is subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the debt security in issue, using the effective interest method.

(m) Foreign currencies

Items included in the financial statements of the bank are presented in UAE Dirhams which is the functional currency of the primary economic environment in which the bank operates. 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 2009 (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 in head office. 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 2009
(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, and the operational risks are an inevitable consequence of being in 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 2009 (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 2009	31 December 2008
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks	1,472,985	967,526
Loans and advances:		
Loans to individual customers	12,984,306	10,297,750
Loans to corporate customers	445,390	652,759
Investment securities	396,914	643,364
Other assets	89,792	75,200
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other off balance sheet items	4,745,684	4,236,681
	20,135,071	16,873,280

The above table represents a worse case scenario of credit risk exposure to the bank at 31 December 2009 and 2008 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, 97% (2008: 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 2009 (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 and amounts due from banks based on the following:

- 90% (2008: 91%)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 reputable organisations which are quasi governmental.

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 2009		31 December 2008	
	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	12,431,861	1,472,985	10,210,284	967,526
Past due but not impaired	993,912	-	797,490	-
Individually Impaired	350,659	-	168,051	-
Gross	13,776,432	1,472,985	11,175,825	967,526
Less: allowance for impairment	(346,736)	-	(225,316)	-
Net	13,429,696	1,472,985	10,950,509	967,526

The total impairment provision for loans and advances is AED 346.74 million (2008: AED 225.32 million) of which AED 241.14 million (2008 – AED125.32 million) represents provision in respect of the individually impaired loans and advances and the remaining amount of AED 105.6 million (2008 -AED 100 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 2009 (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 2009		31 December 2008	
	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	11,987,441	-	9,558,393	-
- Corporate loans	444,420	-	651,891	-
Due from banks	-	1,472,985	-	967,526
Gross	12,431,861	1,472,985	10,210,284	967,526

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 overdue. All loans that are not in default of interest payment and instalment are graded as bucket 0, while loans and advances that are in default of interest payment and instalments 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 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 instalments. 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.

<u>Amounts due from banks</u>

The bank held amounts due from banks of AED 1,473 million (2008: 968 million) which represents its maximum credit exposure on these assets. The balances due from banks are held with reputable banks.

Notes to the financial statements for the year ended 31 December 2009 (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 to customers that were past due but not impaired were as follows:

	31 December 2009			31 December 2008		
	Retail loans AED'000	**Corporate loans** AED'000	**Total** AED'000	**Retail loans** AED'000	**Corporate loans** AED'000	**Total** AED'000
Past due up to 30 days	580,479	-	580,479	520,824	-	520,824
Past due 30 - 60 days	233,782	-	233,782	194,509	-	194,509
Past due 60-90 days	179,651	-	179,651	82,157	-	82,157
Total	993,912	-	993,912	797,490	-	797,490
Fair value of collateral	532,016	-	532,016	546,107	-	546,107

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 2009			31 December 2008		
	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	303,975	46,684	350,659	124,307	43,744	168,051
Fair value of collateral	(55,476)	(9,607)	(65,083)	(15,389)	(9,646)	(25,035)
Net	248,499	37,077	285,576	108,918	34,098	143,016

Notes to the financial statements for the year ended 31 December 2009 (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)

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. The table below presents the loans restructured during the year 2009 and 2008.

Restructured Loan - Retail banking

	2009		2008	
Product	**No of Accounts**	**Loan Amount** AED'000	**No of Accounts**	**Loan Amount** AED'000
Retail Loans	325	50,142	239	44,996
Small Commercial Loans	305	121,343	39	15,307
Mortgage Loans	86	192,602	-	-
Total	**716**	**364,087**	**278**	**60,303**

3.2.3 Investment securities

Investment securities mainly 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 2009 and 31 December 2008, based on external's ratings or their equivalent.

	31 December 2009	**31 December 2008**
	AED'000	AED'000
AAA	99,904	186,192
AA- to AA+	-	123,072
A- to A+	-	282,678
Lower than A-	241,915	14,692
Unrated	55,095	36,730
Total	396,914	643,364

3.2.4 Repossessed collateral

During 2009 and 2008, the bank has 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 2009 (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 2009 and 31 December 2008.

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 2009				
	AED'000	AED'000	AED'000	AED'000
Due from banks	1,188,904	188,218	95,863	1,472,985
Loans and advances				
- Retail loans	12,855,747	24,212	104,347	12,984,306
- Corporate loans	445,390	-	-	445,390
Investment securities				
- Held-to-maturity	269,093	-	18,365	287,458
- Available-for-sale	109,456	-	-	109,456
Other assets	89,792	-	-	89,792
Total	14,958,382	212,430	218,575	15,389,387
31 December 2008				
	AED'000	AED'000	AED'000	AED'000
Due from banks	871,767	91,603	4,156	967,526
Loans and advances:				
- Retail loans	10,224,575	17,468	55,707	10,297,750
- Corporate loans	652,759	-	-	652,759
Investment securities				
- Held-to-maturity	218,771	-	18,365	237,136
- Available-for-sale	406,228	-	-	406,228
Other assets	75,200	-	-	75,200
Total	12,449,300	109,071	78,228	12,636,599

Notes to the financial statements for the year ended 31 December 2009 (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 2009				
Loan commitments	4,200,460	-	-	4,200,460
Guarantees, acceptances and other financial liabilities	509,035	26,566	9,623	545,224
	4,709,495	26,566	9,623	4,745,684
31 December 2008				
Loan commitments	3,735,728	-	-	3,735,728
Guarantees, acceptances and other financial liabilities	457,403	38,392	5,158	500,953
	4,193,131	38,392	5,158	4,236,681

Notes to the financial statements for the year ended 31 December 2009 (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 2009 and 31 December 2008.

	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 2009						
Agriculture, fishing & related activities	7,874	-	-	7,874	120	7,994
Crude oil , gas, mining & quarrying	21,980	-	-	21,980	59,781	81,761
Manufacturing	274,769	-	-	274,769	156,175	430,944
Electricity & water	441	-	-	441	50	491
Construction	280,808	-	-	280,808	146,777	427,585
Trade	1,112,315	-	-	1,112,315	371,125	1,483,440
Transport, storage & communication	233,318	-	-	233,318	30,839	264,157
Financial Institution	2,180	133,859	1,472,985	1,609,024	73,594	1,682,618
Services	353,690	-	-	353,690	109,135	462,825
Government	509	263,055	-	263,564	72,594	336,158
Retail and consumer banking	11,558,474	-	-	11,558,474	3,704,804	15,263,278
Others	209	-	-	209	20,690	20,899
Total exposures	13,846,567	396,914	1,472,985	15,716,466	4,745,684	20,462,150
Less: Interest in suspense	(70,135)	-	-	(70,135)	-	(70,135)
	13,776,432	396,914	1,472,985	15,646,331	4,745,684	20,392,015

Notes to the financial statements for the year ended 31 December 2009 (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	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 2008						
Agriculture, fishing & related activities	6,514	-	-	6,514	120	6,634
Crude oil , gas, mining & quarrying	36,811	-	-	36,811	51,664	88,475
Manufacturing	245,596	-	-	245,596	177,391	422,987
Electricity & water	181	-	-	181	50	231
Construction	262,770	-	-	262,770	141,035	403,805
Trade	982,643	-	-	982,643	338,888	1,321,531
Transport, storage & communication	218,981	-	-	218,981	34,166	253,147
Financial Institution	1,597	308,442	967,526	1,277,565	70,763	1,348,328
Services	325,229	-	-	325,229	92,080	417,309
Government	2,930	334,922	-	337,852	60,105	397,957
Retail and consumer banking	9,122,293	-	-	9,122,293	3,253,050	12,375,343
Others	548	-	-	548	17,369	17,917
Total exposures	11,206,093	643,364	967,526	12,816,983	4,236,681	17,053,664
Less: Interest in suspense	(30,268)	-	-	(30,268)	-	(30,268)
	11,175,825	643,364	967,526	12,786,715	4,236,681	17,023,396

Notes to the financial statements for the year ended 31 December 2009 (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	Overdue above 90 Days	Total	Specific provision
	AED'000	AED'000	AED'000	AED'000
31 December 2009				
Agriculture, fishing & related activities	-	-	-	-
Crude oil, gas, mining & quarrying	-	-	-	-
Manufacturing	-	979	979	562
Electricity & water	-	-	-	-
Construction	-	56,954	56,954	33,237
Trade	-	17,023	17,023	12,070
Transport, storage & communication	254	7,191	7,445	5,804
Financial institution	-	-	-	-
Services	-	4,319	4,319	2,794
Government	-	-	-	-
Retail and consumer banking	21,334	312,740	334,074	186,669
Total impaired loans	21,588	399,206	420,794	241,136
Less: Interest in suspense			(70,135)	-
			350,659	241,136

Notes to the financial statements for the year ended 31 December 2009 (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 2008				
Agriculture, fishing & related activities	768	191	959	853
Crude oil, gas, mining & quarrying	-	-	-	-
Manufacturing	-	2,369	2,369	2,036
Electricity & water	-	-	-	-
Construction	-	55,397	55,397	35,193
Trade	1,135	6,131	7,266	6,218
Transport, storage & communication	440	5,652	6,092	5,066
Financial institution	-	-	-	-
Services	279	350	629	579
Government	-	-	-	-
Retail and consumer banking	38,440	87,168	125,608	75,371
Total impaired loans	41,062	157,258	198,320	125,316
Less: Interest in suspense			(30,269)	-
			168,051	125,316

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), which is made up of the General Manager, the Head of Treasury, the Head of Finance, the Head of Credit, the Head of Corporate Banking and the Head of Personal Banking, meets on a regular basis to monitor and manage market risk.

ALCO is responsible to formalise 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 2009 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.1 Price risk

The bank is exposed to price risk as a result of its holdings in debt and equity 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 2009, 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 5.5 million (2008: AED 8.9 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.

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 2009							
Assets							
Cash and balances with the UAE Central Bank	-	260,000	-	-	784,726	1,044,726	1.25-1.75
Due from other banks	1,211,429	-	-	-	261,556	1,472,985	0.16-1.15
Loans and advances	2,937,780	197,560	1,990,391	8,303,965	-	13,429,696	2.03-33.0
Investment securities	270,494	126,420	-	-	1,413	398,327	0.58-3.38
Property and equipment and other assets	-	-	-	-	771,882	771,882	
Total	4,419,703	583,980	1,990,391	8,303,965	1,819,577	17,117,616	
Liabilities and shareholders' equity							
Due to other banks	35,000	-	-	-	155	35,155	0.45
Due to customers	8,539,904	1,158,304	689,611	-	2,462,212	12,850,031	0.25-7.0
Debt security in issue	-	1,068,305	-	-	-	1,068,305	1.15
Other liabilities and provision for employees' end of service benefits	-	-	-	-	367,149	367,149	
Shareholders' equity	-	-	-	-	2,796,976	2,796,976	
Total	8,574,904	2,226,609	689,611	-	5,626,492	17,117,616	
Interest rate sensitivity gap	(4,155,201)	(1,642,629)	1,300,780	8,303,965	(3,806,915)		

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 2008							
Assets							
Cash and balances with the UAE Central Bank	75,000	30,000	-	-	747,925	852,925	1.70-2.50
Due from other banks	846,906	-	-	-	120,620	967,526	0.08-3.90
Loans and advances	2,544,179	194,756	2,111,005	6,094,896	5,673	10,950,509	2.20-27.0
Investment securities	398,191	245,173	-	-	1,708	645,072	1.86-5.68
Property and equipment and other assets	-	-	-	-	506,032	506,032	-
Total	3,864,276	469,929	2,111,005	6,094,896	1,381,958	13,922,064	
Liabilities and shareholders' equity							
Due to other banks	185,873	-	-	-	-	185,873	1.25
Due to customers	6,260,355	1,355,164	5,307	-	2,032,839	9,653,665	0.25-6.75
Debt security in issue	360,000	1,284,026	-	-	-	1,644,026	4.60-5.12
Other liabilities and provision for employees' end of service benefits	-	-	-	-	359,820	359,820	-
Shareholders' equity	-	-	-	-	2,078,680	2,078,680	-
Total	6,806,228	2,639,190	5,307	-	4,471,339	13,922,064	
Interest rate sensitivity gap	(2,941,952)	(2,169,261)	2,105,698	6,094,896	(3,089,381)		

Notes to the financial statements for the year ended 31 December 2009 (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:

	2009 AED'000	2008 AED'000
Fluctuation in interest rates by 25 bps	9,517	7,723

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on the gap between AED 15,298 million (2008: AED 12,540 million) of interest bearing assets and AED 11,491 million (2008: AED 9,451 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 long US dollar position within limits approved by the bank's Assets and Liabilities Committee (ALCO).

Notes to the financial statements for the year ended 31 December 2009 (continued)

3 Financial risk management (continued

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

At 31 December 2009 and 31 December 2008, bank had the following significant net exposures denominated in foreign currencies:

On balance sheet items

At 31 December 2009	**AED** AED'000	**USD** AED'000	**Others** AED'000	**Total** AED'000
Assets				
Cash and balances with the UAE Central Bank	962,678	82,048	-	1,044,726
Due from other banks	1,128,282	277,579	67,124	1,472,985
Loans and advances	13,395,892	13,229	20,575	13,429,696
Investment securities	227,738	170,589	-	398,327
Other assets	89,343	434	14	89,791
Total assets	15,803,933	543,879	87,713	16,435,525
Liabilities				
Due to other banks	35,139	-	16	35,155
Due to customers	11,750,835	892,533	206,663	12,850,031
Debt security in issue	-	1,068,305	-	1,068,305
Other liabilities	166,712	3,885	236	170,833
Total liabilities	11,952,686	1,964,723	206,915	14,124,324
Net balance sheet position	3,851,247	(1,420,844)	(119,202)	2,311,201
At 31 December 2008				
Total assets	12,606,708	618,644	265,880	13,491,232
Total liabilities	9,142,465	2,302,065	337,153	11,781,683
Net balance sheet position	3,464,243	(1,683,421)	(71,273)	1,709,549

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 2009 and 31 December 2008.

Notes to the financial statements for the year ended 31 December 2009
(continued)

3 Financial risk management (continued

3.3 Market risk (continued)

3.3.3 Currency risk (continued

Off-balance sheet items

At 31 December 2009	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Loan commitments	4,200,460	-	-	4,200,460
Guarantees, acceptances and other financial facilities	341,248	165,934	38,042	545,224
Total	4,541,708	165,934	38,042	4,745,684
At 31 December 2008				
Loan commitments	3,735,728	-	-	3,735,728
Guarantees, acceptances and other financial facilities	330,960	115,744	54,249	500,953
Total	4,066,688	115,744	54,249	4,236,681

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.

Notes to the financial statements for the year ended 31 December 2009 (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 2009					
Due to other banks	35,159	-	-	-	35,159
Due to customers	11,026,159	1,182,947	5,324	915,322	13,129,752
Debt security in issue	-	1,077,857	-	-	1,077,857
Other liabilities	170,833	-	-	-	170,833
Total	11,232,151	2,260,804	5,324	915,322	14,413,601
At 31 December 2008					
Due to other banks	185,878	-	-	-	185,878
Due to customers	7,625,597	1,391,456	797,057	-	9,814,110
Debt security in issue	360,150	-	1,294,955	-	1,655,105
Other liabilities	298,119	-	-	-	298,119
Total	8,469,744	1,391,456	2,092,012	-	11,953,212

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 2009						
Foreign exchange contracts						
– Outflow	84,261	47,027	-	-	-	131,288
– Inflow	83,005	47,798	-	-	-	130,803
At 31 December 2008						
Foreign exchange contracts:						
– Outflow	96,166	22,107	-	-	-	118,273
– Inflow	101,068	21,752	-	-	-	122,820

Notes to the financial statements for the year ended 31 December 2009 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.4 Off-balance sheet items

At 31 December 2009	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
Loan commitments	4,147,984	52,476	-	4,200,460
Guarantees, acceptances and other financial facilities	545,224	-	-	545,224
Total	4,693,208	52,476	-	4,745,684
At 31 December 2008				
Loan commitments	3,606,299	129,429	-	3,735,728
Guarantees, acceptances and other financial facilities	500,953	-	-	500,953
Total	4,107,252	129,429	-	4,236,681

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets. Whilst operational risk cannot be eliminated in its entirety, the bank endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. The management of operational risk commenced with the adoption of a formal governance structure under the Risk Management Committee to provide strategic direction oversight and monitoring of the Operational Risk Framework. The Framework incorporates standards for risk that are based on best practice and codify the core governing principles for operational risk management. It ensures that identification, evaluation, control, measurement, monitoring and reporting of operational risks are consistent across the bank.

3.6 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.

Notes to the financial statements for the year ended 31 December 2009 (continued)

3 Financial risk management (continued)

3.6 Fair values of financial assets and liabilities (continued)

	Fair value		Carrying value	
	2009	2008	2009	2008
	AED'000	AED'000	AED'000	AED'000
Financial assets				
Due from banks	1,472,985	967,526	1,472,985	967,526
Loans and advances:				
Loans to individual customers	12,984,306	10,297,750	12,984,306	10,297,750
Loans to corporate customers	445,390	652,759	445,390	652,759
Investment securities	371,345	600,375	398,327	645,072
Other assets	89,791	75,200	89,791	75,200
Financial liabilities				
Due to other banks	35,155	185,873	35,155	185,873
Due to customers	12,850,031	9,653,665	12,850,031	9,653,665
Debt security in issue	1,068,305	1,635,899	1,068,305	1,644,026
Other liabilities	329,543	298,119	329,543	298,119

(i) Due to/from other banks

Due to/from other banks includes inter-bank placements. These are short term and the carrying amount approximates their fair value.

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The carrying amount approximates the fair value of loans and advances.

(iii) Investment securities

Investment securities include interest-bearing debt instruments that are held-to-maturity and classified as available-for-sale financial assets which are measured at fair value and equity investments. The fair value of available-for-sale debt instruments and equity securities are based on quoted market prices. Fair value for held-to-maturity investment securities is based on market prices or broker/dealer price quotations.

(iv) Due to customers

The estimated fair values of amounts due to customers with no stated maturity, which include non-interest-bearing deposits, is the amount repayable on demand.

The fair values of interest-bearing deposits are not significantly different from the carrying value as they are short term.

(v) Debt security in issue

The fair values of debt security in issue are not significantly different from the carrying value as they mature in 2010.

Notes to the financial statements for the year ended 31 December 2009 (continued)

3 Financial risk management (continued)

3.6 Fair values of financial assets and liabilities (continued)

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 listed equity securities and 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 2009	**Level 1** AED '000	**Level 2** AED '000	**Level 3** AED '000
Available for sale financial assets			
- Investment securities - debt	109,456	-	-
- Investment securities - equity	1,413	-	-
Foreign currency forwards	-	185	-
	110,869	**185**	**-**

31 December 2008	**Level 1** AED '000	**Level 2** AED '000	**Level 3** AED '000
Available for sale financial assets			
- Investment securities - debt	176,814	-	229,814
- Investment securities - equity	1,708	-	-
Foreign currency forwards	-	123	-
	178,522	**123**	**229,814**

Notes to the financial statements for the year ended 31 December 2009 (continued)

3 Financial risk management (continued)

3.6 Fair values of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Reconciliation of Level 3

Available for Sale Securities	
	AED '000
At 1 January 2009	229,814
Fair value losses	3,836
Purchases	-
Disposals/maturities	(233,650)
At 31 December 2009	-

3.7 Capital management

For assessment of current capital requirements, set at a minimum of 11% 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:

	2009 AED'000	2008 AED'000
Tier 1 capital		
Ordinary share capital	962,033	740,025
Share premium	110,350	110,350
Statutory and other reserves	800,768	433,354
Retained earnings	197,676	158,966
Total	2,070,827	1,442,695
Tier 2 capital		
Subordinated debt	684,467	-
Total capital base	2,755,294	1,442,695
Risk weighted assets		
On balance sheet	14,290,345	11,416,591
Off balance sheet	335,569	303,244
Total risk weighted assets	14,625,914	11,719,835
Risk asset ratio on total capital base (%)	18.84%	12.31%
Risk asset ratio on tier 1 capital base (%)	14.16%	12.31%
Minimum risk asset ratio required by the UAE Central Bank	11.00%	10.00%

Notes to the financial statements for the year ended 31 December 2009 (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

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

	2009 AED'000	2008 AED'000
Tier 1 capital		
Share capital	962,033	740,025
Share premium account	110,350	110,350
Legal reserves	232,598	168,999
General reserves	598,004	323,336
Retained earnings	167,842	99,985
	2,070,827	1,442,695
Tier 2 Capital		
Subordinated debt	684,467	-
Total regulatory capital	**2,755,294**	**1,442,695**
Risk Weighted Assets		
Credit risk	10,982,918	8,899,927
Market risk	9,246	10,142
Operation risk	311	406
Total risk weighted assets	10,992,475	8,910,475
Capital adequacy ratio on Regulatory capital	25.07%	16.19%
Capital adequacy ratio on Tier 1 capital	18.84%	16.19%

Subordinated debit represents the debt from the Ministry of Finance of the U.A.E classified as due to customers in the balance sheet.

Notes to the financial statements for the year ended 31 December 2009 (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 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 2009						
Claims on sovereigns	988,871	-	988,871	-	988,871	-
Claims on PSE's	263,056	-	263,056	-	263,056	-
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	1,543,569	-	1,543,569	-	1,543,569	358,722
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	442,288	353,571	795,859	-	795,859	795,859
Claims included in the regulatory retail portfolio	8,904,681	56,685	8,959,501	192,536	8,766,965	6,916,835
Claims secured by residential property	4,056,819	-	4,055,801	-	4,055,801	1,944,286
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	442,080	-	144,077	-	144,077	162,421
Higher-risk categories	-	-	-	-	-	-
Other assets	1,099,189	-	1,099,189	-	1,099,189	804,795
Total claims	**17,740,553**	**410,256**	**17,849,923**	**192,536**	**17,657,387**	**10,982,918**

Of which :	
Rated exposure	2,801,571
Unrated exposure	15,048,352
Total exposure	17,849,923

Notes to the financial statements for the year ended 31 December 2009
(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	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 2008						
Claims on sovereigns	712,668	-	712,668	-	712,668	-
Claims on PSE's	596,507	-	596,507	-	596,507	88,202
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	890,830	-	890,830	-	890,830	181,501
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	661,581	333,644	995,225	91,370	903,855	903,855
Claims included in the regulatory retail portfolio	6,992,984	44,508	7,025,893	303,181	6,722,712	5,090,299
Claims secured by residential property	3,414,741	-	3,414,384	-	3,414,384	1,998,320
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	178,093	-	38,096	-	38,096	41,216
Higher-risk categories	-	-	-	-	-	-
Other assets	881,552	-	881,552	-	881,552	596,534
Total claims	14,328,956	378,152	14,555,155	394,551	14,160,604	8,899,927
Of which :						
Rated exposure			1,718,248			
Unrated exposure			12,836,907			
Total exposure			14,555,155			

Notes to the financial statements for the year ended 31 December 2009 (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	
	2009	2008	2009	2008
	AED '000	AED '000	AED '000	AED '000
Foreign exchange risk	9,246	10,142	1,017	1,014

Capital charge for year ended 31 December 2009 has been calculated at 11% (2008: 10%)

3.7.4 Gross exposures and credit risk mitigation

	Exposures		Risk Weighted Assets	
	2009	**2008**	**2009**	**2008**
	AED '000	AED '000	AED '000	AED '000
Gross exposure prior to Credit Risk Mitigation	17,849,923	14,555,155	11,127,383	9,223,482
Less: Exposures covered by eligible financial collateral	(192,536)	(394,551)	(144,465)	(323,555)
Net Exposures after Credit Risk Mitigation	17,657,387	14,160,604	10,982,918	8,899,927

Notes to the financial statements for the year ended 31 December 2009
(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 uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A +/-5% change in the provision would increase/decrease the profit by AED 14.8 million (2008: AED 3.8 million).

(b) Impairment of available for-sale equity investments

The bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Notes to the financial statements for the year ended 31 December 2009 (continued)

4 Critical accounting estimates, and judgements in applying accounting policies (continued)

(c) 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.

(d) 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 2009
(continued)

5 Cash and balances with the UAE Central Bank

	2009 AED'000	2008 AED'000
Cash in hand and balances with the UAE Central Bank (Note 28)	55,855	140,257
Statutory deposit with the UAE Central Bank	728,871	607,668
Certificates of deposit with the UAE Central Bank	260,000	105,000
	1,044,726	852,925

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 ranging from 1.25% to 1.75% (2008: 1.70% to 2.50%) per annum.

6 Due from other banks

	2009 AED'000	2008 AED'000
Placements with other banks	1,217,455	846,907
Demand deposits	192,305	43,923
Clearing account balances	63,225	76,696
	1,472,985	967,526

Amounts due from other banks carry an interest rate of between 0.16% to 1.15% (2008: 0.08% to 3.90%) per annum.

Notes to the financial statements for the year ended 31 December 2009 (continued)

7 Loans and advances

		2009 AED'000	2008 AED'000
7(a) Loans and advances			
Retail loans		13,285,328	10,480,190
Corporate loans		491,104	695,635
Total loans and advances	7 (b)	13,776,432	11,175,825
Provision for impairment	7 (c)	(346,736)	(225,316)
Net loans and advances		13,429,696	10,950,509
7(b) Analysis of loans and advances			
Loans		13,313,804	10,461,354
Overdrafts		341,834	550,461
Loans against trust receipts		85,241	119,455
Bills discounted		25,403	39,101
Others		10,150	5,454
Total loans and advances		13,776,432	11,175,825

7(c) Provision for impairment

31 December 2009	**Retail loans** AED'000	**Corporate loans** AED'000	**Total** AED'000
Balance brought forward	182,440	42,876	225,316
Impairment charge (Note 7(d))	295,058	2,838	297,896
Written back/off during the year	(176,476)	-	(176,476)
Balance carried forward	301,022	45,714	346,736
31 December 2008			
Balance brought forward	178,372	39,449	217,821
Impairment charge (Note 7(d))	95,280	3,427	98,707
Written back/off during the year	(91,212)	-	(91,212)
Balance carried forward	182,440	42,876	225,316

Notes to the financial statements for the year ended 31 December 2009 (continued)

7 Loans and advances (continued)

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

31 December 2009	Retail loans AED'000	Corporate loans AED'000	Total AED'000
Impairment charge	295,058	2,838	297,896
Write back during the year	(46,010)	-	(46,010)
	249,048	2,838	251,886
31 December 2008			
Impairment charge	95,280	3,427	98,707
Write back during the year	(28,277)	-	(28,277)
	67,003	3,427	70,430

8 Investment securities

8(a) Total investment securities

	2009 AED'000	2008 AED'000
Securities available-for-sale		
Quoted equity securities	1,413	1,708
Quoted debt securities	109,456	176,414
Unquoted debt securities	-	229,814
	110,869	407,936
Securities held-to-maturity		
Quoted debt securities	287,458	237,136
Total	398,327	645,072

Notes to the financial statements for the year ended 31 December 2009 (continued)

8 Investment securities (continued)

8(b) Movement in investment securities

	Securities available-for-sale	Securities held – to – maturity	Total
	AED'000	AED'000	AED'000
At 1 January 2008	490,869	135,286	626,155
Purchases	51,581	182,022	233,603
Disposal / Maturity	(62,223)	(80,250)	(142,473)
Net changes in fair value (Note 18)	(72,291)	-	(72,291)
Amortisation of discount	-	78	78
At 31 December 2008	407,936	237,136	645,072
Purchases	-	78,327	78,327
Disposal/maturity	(326,212)	(33,000)	(359,212)
Net changes in fair value (Note 18)	29,145	-	29,145
Amortisation of discount	-	4,995	4,995
At 31 December 2009	110,869	287,458	398,327

8(c) Income from investment securities

	2009	2008
	AED'000	AED'000
Interest income on debt securities	26,120	25,860
Release of fair value (loss) / gain to income statement on disposal of available-for-sale investment securities (Note 18)	(3)	346
Other investment income	2,148	6,353
	28,265	32,559

Notes to the financial statements for the year ended 31 December 2009 (continued)

8 Investment securities (continued)

8 (d) Investment position as at 31 December 2009

Counter party	Maturity Date	Purchase Cost	Carrying value
As at 31 December 2009			
		AED'000	AED'000
Held to maturity investments			
Emirates Bank Bonds	15-Feb-10	52,065	54,792
Emirates Bank Bonds	6-Dec-10	26,262	27,666
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	99,856	99,905
DEWA Sukuk	16-Jun-13	50,000	50,000
		283,278	287,458

	Maturity Date	Purchase Cost	Carrying value	Fair value reserve
		AED'000	AED'000	AED'000
Available-for-sale investments				
Sharjah Islamic Bank Sukuk	12-Oct-11	18,365	17,314	(1,051)
Dubai Islamic Bank Sukuk	12-Mar-12	18,365	15,721	(2,644)
JAFZA Sukuk	27-Nov-12	101,514	76,421	(25,093)
RAK Properties PSC Shares		2,461	1,413	(1,048)
		140,705	110,869	(29,836)
Total		**423,983**	**398,327**	**(29,836)**

Notes to the financial statements for the year ended 31 December 2009 (continued)

8 Investment securities (continued)

8 (d) Investment position as at 31 December 2009 (continued)

As at 31 December 2008	Maturity Date	Purchase Cost AED'000	Carrying value AED'000
Held to maturity investments			
Emirates Airlines FRN 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	99,856	99,876
DEWA Sukuk	16-Jun-13	50,000	50,000
Emirates Bank International FRN	01-Oct-09	7,650	7,650
Emirates Bank International FRN	03-Mar-09	24,515	24,515
		237,116	237,136

	Maturity Date	Purchase Cost AED'000	Carrying value AED'000	Fair value reserve AED'000
Available-for-sale investments				
DCA Sukuk	4-Nov-09	91,642	86,316	(5,326)
Abu Dhabi Commercial Bank, FRN	27-Feb-09	91,825	90,907	(918)
Emirates Bank International FRN	27-Feb-09	91,825	90,907	(918)
Sharjah Islamic Bank Sukuk	12-Oct-11	18,365	14,692	(3,673)
Dubai Islamic Bank Sukuk	22-Mar-12	18,365	13,406	(4,959)
Abu Dhabi Commercial Bank FRN	26-Nov-09	50,066	48,000	(2,066)
JAFZA Sukuk	27-Nov-12	101,514	62,000	(39,514)
RAK Properties PSC		3,318	1,708	(1,610)
		466,920	407,936	(58,984)
Total		**704,036**	**645,072**	**(58,984)**

Notes to the financial statements for the year ended 31 December 2009
(continued)

9 Property and equipment

	Land and buildings AED'000	Leaseh Improvements AED'000	Other assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
1 January 2008	60,549	29,800	129,841	59,520	279,710
Additions	5,962	874	14,794	207,294	228,924
Transfers	117	9,394	13,291	(22,802)	-
Disposals/write off	-	(219)	(539)	-	(758)
31 December 2008	66,628	39,849	157,387	244,012	507,876
Additions	-	420	15,440	262,185	278,045
Transfers	16,569	7,820	36,740	(61,129)	-
Disposals/write off	-	-	(148)	-	(148)
31 December 2009	83,197	48,089	209,419	445,068	785,773
Depreciation					
1 January 2008	9,055	18,695	76,606	-	104,356
Charge for the year	752	3,928	22,317	-	26,997
Disposals/write off	-	(219)	(396)	-	(615)
31 December 2008	9,807	22,404	98,527	-	130,738
Charge for the year	1,238	6,239	30,335	-	37,812
Disposals/write off	-	-	(148)	-	(148)
31 December 2009	11,045	28,643	128,714	-	168,402
Net book amount					
31 December 2009	72,152	19,446	80,705	445,068	617,371
31 December 2008	56,821	17,445	58,860	244,012	377,138

Included in land and buildings is land costing AED 52.17 million (2008: AED 52.17 million).

Other assets include computer equipment, furniture and fixtures, equipment and motor vehicles.

Notes to the financial statements for the year ended 31 December 2009 (continued)

	2009 AED'000	2008 AED'000

10 Other assets

Prepayments and deposits	40,731	36,511
Others	113,780	92,383
	154,511	128,894

11 Due to other banks

Term deposits	35,000	183,650
Demand deposits	155	2,223
	35,155	185,873

12 Due to customers

Time deposits	8,154,863	5,953,687
Savings deposits	388,920	315,117
Call deposits	448,708	542,416
Current accounts	3,857,540	2,842,445
	12,850,031	9,653,665

13 Debt security in issue

The movement in debt security in issue is summarised as follows:

1 January	1,644,026	1,642,984
Maturity	(360,000)	-
Repurchase	(216,707)	-
Amortisation of issue costs	986	1,042
31 December	1,068,305	1,644,026

The bank has established a Medium Term Note Program for USD 500 million, of which USD 200 million was issued in 2005, USD 150 million in March 2006 and AED 360 million in December 2007. During the year, AED 360 million of the medium term notes was repaid on maturity. The bank has repurchased USD 59 million (AED 216.70 million) bonds from the market at a discount of AED 4.585 million. The discount on repurchased notes has been recognised in the income statement.

Notes to the financial statements for the year ended 31 December 2009 (continued)

13 Debt security in issue (continued)

The USD 200 million and USD 150 million notes mature in 2010 and carry an interest rate of six months Libor + 55bps. The effective interest rate on the USD 350 million notes at 31 December 2009 is 1.15%.

14 Other liabilities

	2009 AED'000	2008 AED'000
Managers cheques issued	101,335	68,500
Accrued expenses	103,252	102,385
Others	126,175	159,599
	330,762	330,484

15 Provision for employees' end of service benefits

	2009 AED'000	2008 AED'000
At 1 January	29,336	22,012
Charge for the year (Note 24)	9,506	10,294
Payment during the year	(2,455)	(2,970)
At 31 December	36,387	29,336

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 2009, 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 6% (2008: 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 5.5% (2008: 5%).

16 Share capital

The authorised, issued and fully paid share capital of the bank comprises 962.03 million shares of AED 1 each (2008: 740.03 million shares of AED 1 each).

At the meeting of the shareholders held on 10 March 2009, a stock dividend (issue of bonus shares) of 30% and a cash dividend of 5% on the issued and paid up share capital of AED 740.03 million was approved by the shareholders in respect of the financial year 2008. The total distribution for 2008 amounted to AED 259 million (2007: stock dividend of 20% and cash dividend of 10% amounting to AED 185 million).

Notes to the financial statements for the year ended 31 December 2009
(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 2008	168,999	123,337	75,000	125,000	13,653	505,989
Changes during the year	63,599	24,667	75,000	175,000	(72,291)	265,975
Release of fair value gain to income statement on disposal of available-for-sale investment securities (Note 8(c))	-	-	-	-	(346)	(346)
At 31 December 2008	232,598	148,004	150,000	300,000	(58,984)	771,618
Changes during the year	72,615	44,403	50,000	200,000	29,145	396,163
Release of fair value loss to income statement on disposal of available-for-sale investment securities (Note 8(c))	-	-	-	-	3	3
At 31 December 2009	305,213	192,407	200,000	500,000	(29,836)	1,167,784

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 2009
(continued)

19 Contingencies and commitments

	2009 AED'000	2008 AED'000
Guarantees	441,969	405,146
Letters of credit	79,898	70,438
Acceptances	23,357	25,273
Commitments to extend credit	4,200,460	3,735,728
Capital commitments	25,727	14,784
Other	-	96
	4,771,411	4,251,465

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.

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 2009	130,803	185
31 December 2008	118,273	123

Notes to the financial statements for the year ended 31 December 2009 (continued)

	2009 AED'000	2008 AED'000

21 Interest income and expense

	2009 AED'000	2008 AED'000
Interest income		
Retail loans	505,702	420,945
Credit cards	478,625	287,130
Commercial loans and overdrafts	569,825	370,326
Auto loans	36,732	40,824
Other banks	6,323	24,912
Deposits with the UAE Central Bank	4,341	13,027
Others	14,569	13,974
	1,616,117	1,171,138
Interest expense		
Due to customers	350,372	191,300
Borrowings from other banks	36,727	81,656
	387,099	272,956

22 Fee and commission income

	2009 AED'000	2008 AED'000
Fees and commission	341,657	273,649
Documentary credits and guarantees	6,998	6,740
Transfers	3,047	3,257
Others	60,777	60,454
	412,479	344,100

23 Operating expenses

	2009 AED'000	2008 AED'000
Staff costs (Note 24)	380,599	340,363
Occupancy costs	57,291	45,962
Marketing expenses	27,958	26,362
Depreciation (Note 9)	37,812	26,997
Services	34,127	29,084
Legal and consultancy fees	28,185	19,584
Computer expenses	21,655	16,253
Others	158,579	143,902
	746,206	648,507

Notes to the financial statements for the year ended 31 December 2009
(continued)

	2009 AED'000	2008 AED'000

24 Staff costs

	2009 AED'000	2008 AED'000
Salaries and allowances	351,954	312,197
Pension	5,357	3,997
End of service benefits (Note 15)	9,506	10,294
Staff training	482	2,011
Others	13,300	11,864
	380,599	340,363

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.

	2009	2008
Net profit for the year in AED	726,149,452	635,984,440
Weighted average number of shares in issue	962,032,500	962,032,500
Basic earnings per share in AED	0.75	0.66

There were no potentially dilutive shares as at 31 December 2009 and 31 December 2008.

26 Dividends

At the meeting held on 7 February 2010, the Board of Directors proposed a stock dividend (issue of bonus shares) of 20% and a cash dividend of 10% of the issued and paid up capital amounting to AED 288.61 million in respect of the year ended 31 December 2009 (2008: 30% stock dividend and 5% cash dividend amounting to AED 259 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 in the year ending 31 December 2010 after it has been approved by the shareholders.

Notes to the financial statements for the year ended 31 December 2009
(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:

	2009 AED'000	2008 AED'000
Transactions during the year		
Interest income	2,442	1,091
Interest expense	19,260	11,044
Commission income	261	1,131
Directors' remuneration	2,685	2,892
Remuneration payable to key management personnel	27,764	24,727
Balances at 31 December:		
Loans and advances:		
- Shareholders and their related companies	21,552	45,164
- Directors and their related companies	11,534	11,291
	33,086	56,455
Due to customers:		
- Shareholders and their related companies	732,810	425,991
- Directors and their related companies	142,787	82,390
	875,597	508,381
Irrevocable commitments, contingent liabilities and forward contracts		
- Shareholders and their related companies	53,668	56,416
- Directors and their related companies	676	11,594
	54,344	68,010

28 Cash and cash equivalents

	2009 AED'000	2008 AED'000
Cash and current account balance with UAE Central Bank (Note 5)	55,855	140,257
Due from other banks (Note 6)	1,472,985	967,526
	1,528,840	1,107,783

Notes to the financial statements for the year ended 31 December 2009
(continued)

29 Segments analysis

In the financial year 2009, segment reporting by the bank was prepared for the first time in accordance with IFRS 8, 'Operating segments'.

Segment information for 2008 that is reported as comparative information for 2009 has been restated to conform to the requirements of IFRS 8.

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 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 the Executive Committee relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. 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.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

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 2009 (continued)

29 Segments analysis (continued)

	Retail banking AED'000	Business banking AED'000	Treasury and others AED'000	Eliminations AED'000	Total AED'000
31 December 2009					
External revenue	1,982,404	70,103	58,833	-	2,111,340
Revenues from other segments	197,461	59,539	111,239	(368,239)	-
Total revenues	2,179,865	129,642	170,072	(368,239)	2,111,340
Segment result	818,629	6,744	43,970	-	869,343
Unallocated costs					(143,194)
Net profit for the year				-	726,149
Impairment charge	295,058	2,838	-	-	297,896
Depreciation	22,570	718	14,524	-	37,812
Segment assets	13,479,581	452,236	2,610,700	-	16,542,517
Unallocated assets					575,099
Total assets	13,479,581	452,236	2,610,700	-	17,117,616
Segment liabilities	8,020,810	3,314,950	2,843,999	-	14,179,759
Unallocated liabilities					140,881
Total liabilities	8,020,810	3,314,950	2,843,999	-	14,320,640

Notes to the financial statements for the year ended 31 December 2009 (continued)

29 Segments analysis (continued)

	Retail banking AED'000	Business Banking AED'000	Treasury and others AED'000	Eliminations AED'000	Total AED'000
31 December 2008					
External revenue	1,439,657	72,132	116,089	-	1,627,878
Revenues from other segments	216,754	59,134	121,564	(397,452)	-
Total revenues	1,656,411	131,266	237,653	(397,452)	1,627,878
Segment result	630,532	44,895	89,131	-	764,558
Unallocated costs					(128,574)
Net profit for the year					635,984
Impairment charge	95,280	3,427	-	-	98,707
Depreciation	14,609	646	11,742	-	26,997
Segment assets	10,755,435	659,390	2,254,144	-	13,668,969
Unallocated assets	-	-	-	-	253,095
Total assets	10,755,435	659,390	2,254,144	-	13,922,064
Segment liabilities	5,998,942	2,451,628	3,255,927	-	11,706,497
Unallocated liabilities					136,887
Total liabilities	5,998,942	2,451,628	3,255,927	-	11,843,384

30 Fiduciary activities

The bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2009, such assets amounted to AED 345.46million (2008: AED 481.41 million) and are excluded from these financial statements of the bank.

Notes to the financial statements for the year ended 31 December 2009 (continued)

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 2009	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	784,726	260,000	-	-	1,044,726
Due from other banks	1,472,985	-	-	-	1,472,985
Loans and advances	2,937,780	197,560	1,990,391	8,303,965	13,429,696
Investment securities	165,660	27,667	205,000	-	398,327
Property and equipment, and other assets	134,406	18,052	2,051	617,373	771,882
Total	5,495,557	503,279	2,197,442	8,921,338	17,117,616
Liabilities and shareholders' equity					
Due to other banks	35,155	-	-	-	35,155
Due to customers	11,002,116	1,158,304	5,144	684,467	12,850,031
Debt security in issue	-	1,068,305	-	-	1,068,305
Other liabilities and provision for employees' end of service benefits	330,762	-	-	36,387	367,149
Shareholders' equity	-	-	-	2,796,976	2,796,976
Total	11,368,033	2,226,609	5,144	3,517,830	17,117,616
Net liquidity gap	(5,872,476)	(1,723,330)	2,192,298	5,403,508	-
At 31 December 2008					
Total assets	4,847,892	252,348	2,348,926	6,472,898	13,922,064
Total liabilities and equity	8,485,084	1,355,164	1,973,800	2,108,016	13,922,064
Net liquidity gap	(3,637,192)	(1,102,816)	375,126	4,364,882	-