INVEST BANK P.S.C.

Consolidated financial statements
31 December 2011

Registered office

Al Born Avenue
P O Box 1885 - Sharjah
United Arab Emirates

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Invest bank

Report of the Chairman of Board of Directors To the 36th General Assembly Held in Sharjah on 11.02.2012 At 7:00 pm

Dear shareholders,

It gives me great pleasure to welcome you to this annual General Assembly meeting of your bank in order to provide you with the thirty sixth annual report including the P&L statement during the year 2011.

The GCC and MENA economies greet the new year in the midst of a weaker global economy, due to the changes and anonymities which continue to be witnessed by some of the Arab countries till today, and imposes in its nature an unclear transitional period, particularly on the financial and economical level, coinciding with the European Sovereign debt crisis which is facing the global economy, especially the European economy.

Subsequent to the latest developments, no signs of ending the state's unrest and ongoing fears from the European debt pressures, the return of widespread recession in the industrialized world, and its impact on the global economy.

Repercussions of interactive financial and economic global crisis resulted in moving the Gulf Cooperation Council (GCC), specifically the UAE, towards comprehensive development of the welfare of their nation and residents evenly. The GCC has worked hard to attract investments and execute huge developmental projects to support the infrastructure and advanced services for investors. The United Arab Emirates witnessed rapid socio-economic development in the shadow of the increase in oil prices, due to the wisdom of its leaders that exploit and employ optimal ways to improve the living conditions of its citizens. This has been evident several times in the local and international reports, which classified the UAE among the countries with the highest rates per capita income. These reports indicate that the country made socio-economic achievements, as well as social benefits for its citizens in a record time compared to the rest of the countries.

Over the past 5 years, the United Arab Emirates continued to rank first with respect to the value of assets among the Arab world, totaling USD 464.2 Billion as of May 2011.

In the banking sector, the consolidated financials results of the Emirati banks revealed in the third quarter of the year 2011, and the consolidated results of the preceding nine months, have showed the success the UAE banking sector in achieving growth in their profits and balance sheet.

As you always expect from us, your Bank's situation remains different, due to your Board of Director's concern to instill ethical trust and credibility as the Bank's essential assets, and strengthen its policies on solid ground (concrete basis) in order to be able to absorb and confront any shocks that could be caused by external crisis.

Your Bank's profitability improved during the year 2011. Thus, gross operating profit has exceeded AED 525 Million, the net operating income reached AED 420.6 Million, interest income earned increased to AED 391.6 Million, compared to last year, and the non-interest income reached AED 134 Million.

Total loans and advances increased by 4% to reach AED 7.8 Billion, while total deposits reached AED 7.5 Billions.

The total assets and total liabilities amounted to AED10.4 Billion and AED 8.3 Billion, respectively.

The capital adequacy for the year 2011 reached a ratio of 26.45%, which is satisfactory compared to the minimum required of 12%

Bank's Net profit improved by 5.46% as of the year end 2011 compared to 2010, which had exceeded AED 317 Million. Shareholder's equity reached AED 2.1 Billion.

Your bank is keen to totally comply with the UAECB rules and regulations, as well as, the international standards and global financial and accounting systems; along with the full preparation concerning the Basel III requirements, risks and regulatory enforcement, providing appropriate monitoring systems, and periodically reviewing independent evaluations concerning the regulatory systems effectiveness, and facing risk of money laundering through experts and highly efficient Chambers and committees.

In the aim of expanding, the Bank is planning on opening a third branch in Dubai- Al Qouz area, during the beginning of 2012. Further, the Bank has initiated the set up of the third new branch in Abu Dhabi- Al Difaa Street, which is expected to officially open during the year 2012; in addition to opening two other new branches, in Khorfakan and Dubai-Deira, respectively.

The Bank has signed a construction contract for the new H.O building- in Sharjah, Al Nad area. The preliminary work has been finalized by the awarded contractor; it is expected that the building will be officially opened during the year 2013.

Bank pays special interests for the localization of the employment, and strives to develop and strengthen the UAE national employees in the banking sector. During 2011, the Bank has signed an agreement with one of the major Swiss firms chosen to train the UAE national staff under the program name "Kiyada", for a period of 9 months. This will qualify in achieving higher managerial and leadership positions.

The Board of Directors recommended a distribution of 18.2251% dividend to the shareholders which consist of 10% cash dividend and 8.2251% bonus shares, which is reasonable considering the current circumstances and factors.

With the distribution of 8.2251% bonus shares the capital will be increased to AED 1.250 Billion.

In conclusion, I thank you all for your presence. On your behalf and on the behalf of the Board of Directors, Chairman and members of the Invest Bank, I wish to convey our deepest thanks and gratitude to his Highness, Sheikh Dr. Sultan Bin Mohammed Al Qassimi, Member of the Supreme Council Ruler of Sharjah, for HH keen interest and permanent support to your Bank.

On your behalf and on the behalf of the board of directors, I would like to thank the Bank's management and staff members for their continuous determined efforts at the service of your Bank.

Chairman of the Board

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Independent auditors report to the Shareholders of Invest Bank P.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Invest Bank PSC ("the Bank") and its subsidiary ALFA Financial Services FZE (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statements of comprehensive income (comprising a consolidated statement of comprehensive income and a separate consolidated income statement), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Bank and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements

As required by the UAE Federal Law No.8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group and the contents of directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2011, which may have had a material adverse effect on the business of the Group or its financial position.

KPMG
Vijendra Nath Malhotra
Registration No. 48B
18 January 2012

Invest bank P.S.C.

Consolidated statement of financial position

at 31 December

	Note	2011 AED'000	2010 AED'000
Assets			
Cash and deposits with the UAE Central Bank	*8*	**612,679**	576,101
Loans and advances to banks	*9*	**773,356**	1,120,742
Customers' indebtedness for acceptances	*26*	**473,983**	422,094
Loans and advances to customers	*4(b)*	**7,848,579**	7,519,355
Investment securities	*10*	**523,210**	534,426
Property and equipment	*11*	**42,901**	41,456
Other assets	*12*	**128,246**	82,176
Total assets		**10,402,954**	10,296,350
Liabilities			
Deposits from other banks	*13*	**117,696**	79,026
Deposits from customers	*14*	**7,539,476**	7,642,578
Liabilities under acceptances	*26*	**473,983**	422,094
Other liabilities	*15*	**149,380**	142,285
Total liabilities		**8,280,535**	8,285,983
Equity			
Share capital	*16*	**1,155,000**	1,155,000
Legal reserve	*16*	**297,009**	265,279
Special reserve	*16*	**297,009**	265,279
Revaluation reserve	*10*	**(91,892)**	(37,997)
Retained earnings		**465,293**	362,806
Total equity		**2,122,419**	2,010,367
Total liabilities and equity		**10,402,954**	10,296,350

The notes on pages 9 to 52 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 18 January 2012 and signed on its behalf by:

General Manager

Director

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

Invest bank P.S.C.

Consolidated income statement

for the year ended 31 December

	Note	2011 AED'000	2010 AED'000
Operating income			
Interest income	*17*	**629,020**	598,815
Interest expense	*17*	**(237,430)**	(246,657)
Net interest income	*17*	**391,590**	352,158
Net fees and commission income	*18*	**109,453**	108,692
		501,043	460,850
Net income from dealing in foreign currencies		**20,825**	20,684
Net losses from investment securities	*10*	**(687)**	(2,034)
Other operating income	*19*	**4,429**	5,499
Total operating income		**525,610**	484,999
Operating expenses			
General and administrative expenses	*20*	**(104,960)**	(94,713)
Specific impairment provision on loans and advances, net	*4(b)*	**(87,492)**	(73,613)
Portfolio impairment provision	*4(b)*	**(6,976)**	(8,861)
Provision for other expenses	*21*	**(8,885)**	(6,950)
Total operating expenses		**(208,313)**	(184,137)
Net profit for the year		**317,297**	300,862
Earnings per share (UAE Dirham's)	*22*	**0.275**	0.260

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Invest bank P.S.C.

Consolidated statement of comprehensive income

for the year ended 31 December

	2011 AED'000	2010 AED'000
Net profit for the period	**317,297**	300,862
Other comprehensive income:		
Directors' remuneration	**(1,200)**	(1,200)
Change in fair value of financial assets measured at fair value through other comprehensive income	**(54,075)**	(27,414)
Amortisation of fair value movements on reclassified investments	**180**	180
Total comprehensive income for the period	**262,202**	272,428

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Invest bank P.S.C.

Consolidated statement of changes in equity

for the year ended 31 December

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2010	**1,155,000**	**235,193**	**235,193**	**(10,572)**	**261,725**	**1,876,539**
Total comprehensive income for the year						
Profit or loss	-	-	-	-	300,862	300,862
Other comprehensive income						
Directors remuneration	-	-	-	-	(1,200)	(1,200)
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(27,414)	-	(27,414)
Amortisation of fair value movements on reclassified investments				180	-	180
Gain on sale of financial assets measured at fair value through other comprehensive income	-	-	-	(191)	191	-
Total other comprehensive income	-	-	-	(27,425)	(1,009)	(28,434)
Total comprehensive income for the year	-	-	-	(27,425)	299,853	272,428
Cash dividend paid	-	-	-	-	(138,600)	(138,600)
Transfers to reserve	-	30,086	30,086	-	(60,172)	-
At 31 December 2010	**1,155,000**	**265,279**	**265,279**	**(37,997)**	**362,806**	**2,010,367**
At 1 January 2011	**1,155,000**	**265,279**	**265,279**	**(37,997)**	**362,806**	**2,010,367**
Total comprehensive income for the year						
Profit or loss	-	-	-	-	317,297	317,297
Other comprehensive income						
Directors remuneration	-	-	-	-	(1,200)	(1,200)
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(54,075)	-	(54,075)
Amortisation of fair value movements on reclassified investments			-	180	-	180
Total other comprehensive income				(53,895)	(1,200)	(55,095)
Total comprehensive income for the year	-	-	-	(53,895)	316,097	262,202
Cash dividend paid	-	-	-	-	(150,150)	(150,150)
Transfers to reserve	-	31,730	31,730	-	(63,460)	-
At 31 December 2011	**1,155,000**	**297,009**	**297,009**	**(91,892)**	**465,293**	**2,122,419**

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Invest bank P.S.C.

Consolidated cash flow statement

for the year ended 31 December

	Note	2011 AED'000	2010 AED'000
Cash flows from operating activities			
Net profit for the year		**317,297**	300,862
Adjustments for:			
Depreciation		**5,613**	5,340
Net losses from investment securities		**687**	2,034
Net losses from revaluation of investment property		**2,480**	3,465
Net impairment losses and general provisions		**94,468**	82,474
		420,545	394,175
Changes in time deposits with other banks and certificates of deposit of the UAE Central Bank maturing after three months		**55,509**	425,000
Change in loans and advances to customers		**(423,692)**	(1,255,116)
Change in other assets		**(48,550)**	(9,215)
Change in deposits from customers		**(103,102)**	579,840
Change in other liabilities		**7,095**	35,566
Directors' remuneration paid		**(1,200)**	(1,200)
Net cash (used)/generated from operating activities		**(93,395)**	169,050
Cash flows from investing activities			
Purchase of property and equipment, net		**(7,058)**	(5,290)
Purchase of investment securities		**(43,366)**	(190,962)
Proceeds from sale of investment securities		**-**	89,613
Net cash used in investing activities		**(50,424)**	(106,639)
Cash flows from financing activity			
Cash dividend paid		**(150,150)**	(138,600)
Net cash used in financing activity		**(150,150)**	(138,600)
Net decrease in cash and cash equivalents		**(293,969)**	(76,189)
Cash and cash equivalents at 1 January		**1,567,817**	1,644,006
Cash and cash equivalents at 31 December	23	**1,273,848**	1,567,817

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1 Legal status and activities

Invest bank P.S.C. ('Invest bank' or "the Bank") is a public shareholding company with limited liability and was incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered office of the Bank is at Al Borj avenue, P.O.Box 1885, Sharjah, United Arab Emirates ("UAE").

The principal activity of Invest Bank is to provide corporate and retail banking services within the UAE. The Bank is also involved in investment activities. Invest Bank operates through branches located in Sharjah, Abu Dhabi, Al Ain, Dubai, Ajman, Ras Al Khaimah and Fujairah. The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

The Bank has one fully owned subsidiary company, ALFA Financial Services FZE which was established in July 2010 with limited liability status in the Sharjah Airport International Free Zone to provide support services to the Bank.

The Bank's subsidiary has started its operations in May 2011, hence results of the entity are included in these consolidated financial statements. However, the comparatives are un-consolidated.

The consolidated financial statements for the year ended 31 December 2011 comprise the Bank and its subsidiary (together referred to as "the Group").

2 Basis of preparation

a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and the guidelines of UAE Central Bank.

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

b) *Basis of measurement*

The consolidated financial statements have been prepared on a historical cost basis except for the following which are stated at fair value:

- Investment properties;
- Derivative financial instruments;
- Financial instruments at fair value through profit or loss; and
- Financial investments at fair value through other comprehensive income.

c) *Functional and presentation currency*

These consolidated financial statements have been presented using UAE Dirham ("AED"), which is the Group's functional currency. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand.

d) *Use of estimates and judgments*

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 6.

2 Basis of preparation (continued)

e) Change in accounting policies

The Group has adopted IAS 24 "Related party disclosures" (revised) effective 1 January 2011. IAS 24 amends the definition of a related party and modifies certain related party disclosure requirements for government-related entity. The management has assessed the impact of this new standard and believes that changes have no significant affect on the Group's financial statement.

In addition to above the Group has applied IAS-27 "Consolidated and Separate financial statements" for the preparation of these consolidated financial statements for the year ended 31 December 2011.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been consistently applied by the Group entities, except as explained in note 2(e), which addresses the changes in the accounting policies.

a) Basis of consolidation

Subsidiary

Subsidiary is an entity controlled by the Group. Control exists when the Group has power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefit from its activities. The financial statement of the subsidiary are included in the consolidated financial statements from the date control commences to the date control ceases.

Transactions eliminated on consolidation

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

b) Interest income and expense

Interest income and interest expense are recognised in income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms in the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs, fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the income statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expenses;
- the ineffective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of interest rate risk; and
- fair value changes in the qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from investments.

Fair value changes on the other derivatives held for risk management purposes, and all other financial assets and liabilities carried at FVTPL(fair value through profit and loss) are presented in net income from dealing in foreign currencies and net losses from investment securities in the income statement.

3 Summary of significant accounting policies

c) Fees and commission income

Fees and commission income are generally recognised on an accruals basis when the related services are performed by the Group. Fee and commission expenses are expensed as the related services are received.

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

d) Dividend income

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

e) Financial assets

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

A financial assets or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Classification
At inception a financial asset is classified as measured at amortised cost or fair value.

A financial asset qualifies for amortised cost measurement only if it meets both of the following two conditions :
- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflect the best way the business is managed and information is provided to the management.
In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:
- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest revenue;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Group has designated certain financial assets at fair value through profit or loss because designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

3 Summary of significant accounting policies *(continued)*

e) Financial assets (continued)

Classification (continued)

Financial assets at FVTOCI

At initial recognition the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in certain equity instruments as at FVTOCI (fair value through other comprehensive income). Designation to FVTOCI is not permitted if the equity instrument is held for trading.

Dividend in these investments in equity instruments are recognised in the income statement when the Bank's right to receive the dividends is established, unless the dividends clearly represents a recovery of part of the cost of the investment.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss.

Financial assets held for trading

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together that has evidence of a recent annual pattern of short term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

Impairment of financial assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost are impaired. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Group considers evidence of impairment at both a specific and collective level.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the group on terms that the group would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Specific level

At each reporting date, the Bank assesses on a case-by-case basis whether there is any objective evidence that a asset is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Collective level

Impairment is determined on a collective basis for two different scenarios:

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified.
- for homogeneous groups of loans that are not considered individually significant.

Group is calculating collective provision as per UAE Central Bank regulations and guidelines.

3 Summary of significant accounting policies *(continued)*

e) Financial assets (continued)

Impairment of financial assets carried at amortised cost *(continued)*

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for loan impairment in the income statement.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

De-recognition of financial assets

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of the ownership are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control on the financial asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Group is recognised as separate asset or liability in the statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the financial assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfer of assets with retention of all or substantially all risks and rewards include, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the services.

3 Summary of significant accounting policies *(continued)*

f) Financial liabilities and equity instruments issued by the bank

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired or incurred principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including Group borrowings and customers' deposits, are initially measured at fair value, net of transaction costs.

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

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

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

g) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3 Summary of significant accounting policies *(continued)*

h) Fair value measurement principles

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 on the measurement date.

When available, the Group measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

When a market for a financial instrument is not active, the Group establishes fair value using valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Assets and long positions are measured at bid price; liabilities and short positions are measured at an asking price. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The Group measures the fair value using the following fair value hierarchy that reflects the significance of input used in making these measurement.

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using : quoted market prices in active markets for similar instruments; quoted prices for similar or identical instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

i) Derivative financial instruments

Derivatives held for internal risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position and all changes in their fair value are recognised immediately in income statement. The Group uses derivative financial instruments primarily to satisfy the requirements of its customers.

3 Summary of significant accounting policies *(continued)*

j) Foreign currency transactions

The accounting records of the Group are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to UAE Dirhams at the spot foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign currency differences arising on re-translation are recognised in profit or loss, except for differences arising on the re-translation of FVTOCI, which are recognised directly in other comprehensive income.

k) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of assets as follows:

Buildings	20
Office installations and improvements	10
Office furniture and equipment	2 to 5
Motor vehicles	3

Depreciation methods, useful lives and residual values are reassessed at the reporting date. No depreciation is charged on freehold land and capital-work-in-progress. Depreciation methods, useful lives and residual values are reassessed at the reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

l) Investment Property

Investment Property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Group holds some investment property acquired through the enforcement of security over loans and advances. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the income statement.

m) Staff terminal benefits

Staff benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. On the termination of employment, expatriate employees are entitled to receive end of service benefits in accordance with the UAE labour law. The Group accrues for its liability in this respect based on the liability that would arise under the UAE labour law if the employment of all staff were terminated at the reporting date, which is not expected to be materially different to that computed in accordance with IFRS.

The Group contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Group's contributions are charged to the statement of income in the period to which they relate. In respect of this scheme, the Group has a legal and constructive obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

3 Summary of significant accounting policies *(continued)*

n) Provisions

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

o) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

p) Earnings per share

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

q) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with the Central Bank of the UAE, amounts due from other banks and deposits from other banks that are held for the purpose of meeting short term cash commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

r) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest method, except when the Group recognises the loans and advances at fair value through profit or loss.

s) Investment Securities

Investment securities are accounted for depending upon their classification as either amortised cost, fair value through profit or loss or fair value through other comprehensive income (refer note 3(e), for detail accounting policies regarding classification and measurement).

3 Summary of significant accounting policies *(continued)*

t) Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Group's shareholders.

u) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

v) Operating leases

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

w) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The reduction in value is recognised in the income statement.

x) Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the Executive Committee of the Group to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

y) Directors remuneration

In accordance with the Ministry of Economy and Commerce Interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), directors' remuneration of the Group has been treated as an appropriation from equity and recognized under other comprehensive income.

z) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for accounting period starting 1 January 2011, and have not been early adopted in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

4 Financial Risk Management

a) Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Legal and Compliance risk

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

Risk management framework

The Board of Directors (the Board or board or BOD) has overall responsibility for the establishment and oversight of the Group's risk management framework. The previously established Committees viz a Board Executive Committee, Asset and Liability Committee (ALCO) and an Audit Committee to establish the base for risk management have been expanded by recognizing the need to evolve to meet the structural changes in the banking industry and heed to the regulations.

• Consequently the Board has introduced a new phase of corporate governance and the Group is currently transitioning to the risk and governance framework to act as a catalyst for change. To assist the Board with this activity following additional committees and departments have been established. These are a Steering Committee (comprising of senior management), Management Credit Committee, Independent Risk Management Department and AML & Compliance Department. The AML & Compliance is operated under the General Manager to ensure AML compliances meets the international standards and Group's reputation is protected. Committees, as highlighted above, are streamlined and restructured to mirror the changes in governance to cope with rapid changes in the markets.

• Newer concepts and approaches and Basel II Frameworks are being introduced in phases and accordingly policies are being revised as a constant sustainable activity. Control is maintained by assigning distinct responsibilities to members of the senior management under the Risk Management Matrix.

• Instead of a 'bolt on' to existing process, Group continues to re-examine the entire process, inherent risk factors and controls and consider opportunities by rationalizing regulatory risk management initiatives. Experiencing from the crisis, and to deliver value beyond mere adherence, one part of this framework is Internal Capital Adequacy Assessment Process (ICAAP), to assess capital to cover risks not covered under Pillar 1. This ICAAP exercise has demonstrated that the Group has sufficient capital buffers to cushion any extreme circumstances or scenarios and has adequate Risk Bearing Capacity at 99.9% confidence level.

• Given the operating environments, Group's size and the products, resource constraints, Group is adopting a "vanilla compliance" approach i.e. the focus and intensity of efforts will be proportionate to the strategic impact and business value. Group is also mindful that fragmented and labour intensive compliance activities put a drain on ongoing costs, resources and efficiencies of core business operations. Therefore risk management activities are being managed in a calculated manner, but conforming to regulatory requirements and international best practices desirable under Basel II.

• Under the purview of the Risk Management Department, Group is making steady progress in its initiatives to embrace an enterprise risk management (ERM) framework to enable the business and functional units manage all risks in a pro-active manner while integrating concepts of strategic planning, operational risk management, internal controls, and compliances. These include methods and processes, encompassing all risk dimensions to seize the opportunities related to the achievement of the Group's objectives.

• Risk Management Department is also formulating Credit Risk policies in consultation with various departments under CRMD, including collateral management policies, credit assessment, risk grading and reporting, risk rating, compliance with regulatory and statutory requirements and recommending the credit policies for Board approval.

• Frameworks for translating policies defining "risk appetite" and "risk tolerance" levels to measurement techniques are being developed linking them to appropriate risk limits, controls, capital planning management (CPM) frameworks. Through CPM Group's aim is to maximize stakeholder value, strategic planning, risk based pricing, risk adjusted performance measurement in addition to fulfilling regulatory requirements. Reviewing of risk management policies and systems is a regular activity to reflect changes in market conditions, products and services offered by the Group in order to present a comprehensive view of risk from a strategic and operational perspective and have a process to address risk proactively and promote capturing of opportunities.

b) **Credit Risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, other banks and investment securities.

For risk management purposes, credit risk arising on trading securities is managed independently under the directives from the Board by a committee, but reported as a component of market risk exposure, with an exception of stress testing scenario which forms part of credit risk.

Management of credit risk

The Board of Directors has delegated some of the responsibilities of the management of credit risk to its Executive Committee (EC), Credit Committee and Management Credit Committee. A separate and centralised credit risk management division ("CRMD") is responsible for oversight of the Bank's credit risk, which constitutes of Credit Processing Unit (CPU), Credit Facility Assessment Authority (CFAA) and Credit Control and Remedial (CCAR) including :

• *Establishing the authorisation structure* for the approval and renewal of credit facilities. The Board has delegated limited approval authorities (discretionary limits) to the credit committees. Changes to discretionary limits are subject to Board approval. Similarly, facilities in excess of discretionary limits are approved by the EC or the Board of Directors.

• Reviewing and assessing credit risk in accordance with authorisation structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

• Developing and maintaining the Bank's risk grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus on management of the attendant risks. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigants. In preparation for the implementation of the IRB (internal rating based) approaches and building a strong database, bank has introduced online processing of credit applications, rating of all counterparties and is in the process of developing a risk sensitive framework with an objective of levying risk premiums.

• *Reviewing compliance* on an ongoing basis with agreed exposure limits relating to counterparties, industries and countries. Regular reports are provided to the management, executive committee and the Board of Directors on the quality of portfolios and appropriate corrective action is initiated.

• *Limiting concentrations of credit exposure* to counterparties and industries (for loans and advances) by establishing exposure caps and monitoring sectoral exposures. Preferred sectors are identified regularly in line with market dynamics. Accordingly marketing initiatives are directed either to expand or efforts are focused for reduction to balance risk / reward trade offs.

• *Settlement limits and usage of a clearing agent* to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process.

• Providing advice, guidance and specialist skills to business units to promote best practices throughout the Bank in the management of credit risk.

• For Financial Institutions the Bank uses external rating such as Standard and Poor's and Capital Intelligence or other recognised credit rating agencies in order to manage its credit risk exposure.

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

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Exposure to credit risk

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

	Loans and advances		Due from banks		Debt securities	
	2011	2010	**2011**	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Carrying amount, net	**7,848,579**	7,519,355	**773,356**	1,120,742	**342,582**	300,242
Individually impaired*						
Substandard	**71,202**	108,236	-	-	-	-
Doubtful	**141,959**	86,352	-	-	-	-
Legal and loss	**180,112**	273,105	-	-	-	-
Gross amount	**393,273**	467,693	-	-	-	-
Interest suspended	**(34,073)**	**(82,551)**	-	-	-	-
Specific allowance for impairment	**(355,812)**	(382,925)	-	-	-	-
Carrying Amount	**3,388**	2,217	-	-	-	-
Past due but not impaired (overdue by more than 90 days)*	**112,637**	109,891				
	112,637	109,891	-	-	-	-
Neither past due nor impaired						
Standard	**7,698,647**	7,335,345	**773,356**	1,120,742	**342,582**	300,242
Accounts with renegotiated terms	**83,857**	114,875			-	-
	7,782,504	7,450,220	**773,356**	1,120,742	**342,582**	300,242
Total non-impaired portfolio	**7,895,141**	7,560,111	**773,356**	1,120,742	**342,582**	300,242
Collective allowance for impairment	**(49,950)**	(42,973)			-	-
Carrying amount	**7,845,191**	7,517,138	**773,356**	1,120,742	**342,582**	300,242
Carrying amount	**7,848,579**	7,519,355	**773,356**	1,120,742	**342,582**	300,242

* The Group has a defined policy for delinquency, monitoring and controlling such delinquent accounts, in line with Central Bank and Basel II guidelines.

Impaired loans and advances

Impaired loans and advances are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are classified as substandard, doubtful, legal and loss, as appropriate, which is in accordance with the guidelines issued by the UAE Central Bank.

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Group believes that impairment is inappropriate on the basis of a genuine repayment source and/or delays in receiving assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to a deterioration in the borrower's financial/circumstantial position and where the Group has made some concessions such as initial maturity is lengthened but there is no loss in terms of interest or principal. Once the loan is restructured it remains in this category for a minimum period of one year during which time repayment should be regular in order to transfer to standard portfolio.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate for incurring losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Write-off policy

The Group writes off loans/securities (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and there is no scope to pursue any other avenues.

However, in the event there are future chances for recovery where the Group believes there are merits in keeping the account open, the debit is written down with a nominal balance of AED 10 to keep the account open for tracking purposes.

Collateral and other credit enhancements

The Group holds collateral against loans and advances to customers in the form of cash margins, pledges/ liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Group accepts guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporates and high net worth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are updated during annual reviews. Generally, collateral is not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Group's policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below.

		2011 AED'000	2010 AED'000
Against neither past due nor impaired			
Cash		**1,535,337**	1,650,078
Commercial and industrial property		**1,707,610**	1,625,873
Residential property		**1,757**	-
Equities		**111,148**	151,048
Other		**889,295**	609,176
	1	**4,245,147**	4,036,175
Against past due but not impaired			
Cash		**22,313**	14,096
Commercial and industrial property		**25,729**	709
Equities		**223**	1,086
Other		**5,149**	7,094
	2	**53,414**	22,985
Against impaired			
Cash		**5,746**	10,819
Commercial and industrial property		**7,200**	15,119
Equities		**1,498**	2,667
Other		**2,820**	1,682
	3	**17,264**	30,287
Total collateral held	1+2+3	**4,315,825**	4,089,447

Collateral values reflect the maximum exposure or the value of the collateral whichever is lower. Actual pledged values in most cases are higher.

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

Concentration of Credit Risk

The Group monitors internally concentrations of credit risk by sector and geographical location. An analysis of concentrations of credit risk as defined by the Group's internal approved guidelines at the reporting date is shown below (all figures in AED'000):

	Loans and advances		Due from banks		Debt securities	
	2011	2010	**2011**	2010	**2011**	2010
Carrying value, net	**7,848,579**	7,519,355	**773,356**	1,120,742	**342,582**	300,242
Concentration by sector:						
Sovereign	**1,771,416**	1,669,417	-	-	**229,195**	229,195
Construction	**1,104,346**	1,021,999	-	-	-	-
Trade	**1,196,975**	1,134,307	-	-	-	-
Real estate and real estate trading	**797,175**	936,902	-	-	**70,022**	70,022
Manufacturing	**728,188**	831,558	-	-	-	1,025
Services	**936,703**	973,850	-	-	-	-
Investments	**901,050**	722,180	-	-	-	-
Banks and financial institutions	**274,410**	266,755	**773,356**	1,120,742	**43,365**	-
Transport and communication	**140,451**	132,563	-	-	-	-
Retail	**82,761**	72,904	-	-	-	-
Agriculture	-	-	-	-	-	-
Others	**354,939**	265,369	-	-	-	-
Gross total	**8,288,414**	8,027,804	**773,356**	1,120,742	**342,582**	300,242
Concentration by location:						
United Arab Emirates	**8,285,159**	8,025,999	**677,732**	1,000,897	**342,582**	300,242
Other G.C.C.	**1,289**	605	**14,573**	9,411	-	-
Other Arab countries	**1,966**	1,200	**8,493**	11,108	-	-
Western Europe	-	-	**72,558**	99,326	-	-
Australia	-	-	-		-	-
Gross total	**8,288,414**	8,027,804	**773,356**	1,120,742	**342,582**	300,242

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

In accordance with the disclosure requirement of BASEL II Pillar 3 concentrations of credit risk by industry segment and currency are as follows. (All figures in AED'000):

Gross credit exposure by industry segment
(as defined by the Central Bank of the UAE)

	Loans and advances		Debt Securities		Total	
	2011	2010	**2011**	2010	**2011**	2010
Industry Segment						
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining and Quarrying	**148,221**	214,333	-	-	**148,221**	214,333
Manufacturing	**733,805**	889,061	-	1,025	**733,805**	890,086
Electricity and Water	**11**	95	-	-	**11**	95
Construction	**1,740,641**	1,760,808	**70,022**	70,022	**1,810,663**	1,830,830
Trade	**1,200,771**	1,142,158	-	-	**1,200,771**	1,142,158
Transport, Storage and Communication	**140,451**	132,563	-	-	**140,451**	132,563
Financial Institutions	**274,410**	266,755	**43,365**	-	**317,775**	266,755
Services	**940,442**	978,349	-	-	**940,442**	978,349
Government	**1,771,416**	1,669,417	**229,195**	229,195	**2,000,611**	1,898,612
Retail/ Consumer banking	**82,976**	83,517	-	-	**82,976**	83,517
All others	**1,255,270**	890,748	-	-	**1,255,270**	890,748
Total	**8,288,414**	8,027,804	**342,582**	300,242	**8,630,996**	8,328,046

Gross credit exposure by currency

	Loans and advances		Debt Securities		Total	
	2011	2010	**2011**	2010	**2011**	2010
Foreign currency	**371,767**	367,839	**73,460**	55,095	**445,227**	422,934
AED	**7,916,647**	7,659,965	**269,122**	245,147	**8,185,769**	7,905,112
Total	**8,288,414**	8,027,804	**342,582**	300,242	**8,630,996**	8,328,046

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

Impaired loans and advances by industry segment and geographical location at 31 December 2011, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues		Provisions	Adjustments	Adjustments	Total impaired assets
	90 days and above	Total	Specific	Write - offs	Write - backs	
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining	5,036	5,036	4,791	-	-	245
Manufacturing	41,774	41,774	39,650	52,007	271	2,124
Electricity and Water	-	-	-	-	-	-
Construction	225,450	225,450	225,450	125,239	10,155	-
Trade	74,615	74,615	74,615	1,824	570	-
Transport, Storage and Communication	19,399	19,399	18,380	235	284	1,019
Financial Institutions	-	-	-	-	-	-
Services	1,580	1,580	1,580	9,383	4,605	-
Government	-	-	-	-	-	-
Retail/ Consumer banking	11,169	11,169	11,169	1,377	153	-
All others	14,250	14,250	14,250	-	3,095	-
Total	**393,273**	**393,273**	**389,885**	**190,065**	**19,133**	**3,388**
Concentration by Geography						
United Arab Emirates	391,984	391,984	388,816	190,065	19,133	3,168
Non UAE	1,289	1,289	1,069	-	-	220
Total	**393,273**	**393,273**	**389,885**	**190,065**	**19,133**	**3,388**

Impaired loans and advances by industry segment and geographical location at 31 December 2010, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues		Provisions	Adjustments		Total impaired assets
	90 days and above	Total	Specific	Write - offs	Write - backs	
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining	4,737	4,737	4,716	-	-	21
Manufacturing	61,110	61,110	61,110	16,000	14	-
Electricity and Water	-	-	-	-	-	-
Construction	281,388	281,388	281,131	184,955	3,324	257
Trade	64,440	64,440	64,013	29,357	1,509	427
Transport, Storage and Communication	18,259	18,259	18,054	-	33	205
Financial Institutions	-	-	-	-	-	-
Services	12,076	12,076	10,803	103	52	1,273
Government	-	-	-	-	-	-
Retail/ Consumer banking	25,683	25,683	25,649	378	1,281	34
All others	-	-	-		424	-
Total	467,693	467,693	465,476	230,793	6,637	2,217
Concentration by Geography:						
United Arab Emirates	466,449	466,449	464,460	230,793	6,637	1,989
Non UAE	1,244	1,244	1,016	-	-	228
Total	467,693	467,693	465,476	230,793	6,637	2,217

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

At reporting date the Group do not have any impaired loans overdues less than 90 days. At 31 December 2011 the collective impairment provision is AED 49.9 Million (2010: AED 42.9 million)

Analysis of the Bank's exposure at 31 December 2011 based on BASEL II standardised approach is as follows (all figures in AED 000):

	On balance sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
Asset classes	**Gross outstanding**	**Net exposure after credit conversion factor**	**Exposure before CRM**	**CRM**	**After CRM**	
Claims on sovereign	1,350,273	193	1,350,466	-	1,350,466	-
Claims on (PSEs)	1,203,722	13,217	1,216,939	-	1,216,939	-
Claims on banks	746,503	73,232	819,735	-	819,735	255,423
Claims on securities firm	47,045	-	47,045	35,095	11,950	12,045
Claims on corporates	5,819,479	2,789,029	8,510,756	1,769,224	6,741,532	6,888,568
Claims included in retail portfolio	43,555	904	44,459	1,902	42,557	31,920
Claims secured by residential property	1,757	-	1,757	-	1,757	615
Claims secured by commercial real estate	237,330	-	237,330	12,823	224,507	224,507
Past due loans	437,832	23,527	178,173	24,329	153,844	216,018
High risk categories	141,561	-	140,807	-	140,807	211,211
Other assets	344,262	-	340,561	-	340,561	225,035
Total	**10,373,319**	**2,900,102**	**12,888,028**	**1,843,373**	**11,044,655**	**8,065,342**

Analysis of the Bank's exposure at 31 December 2010 based on BASEL II standardised approach is as follows (all figures in AED 000):

	On balance sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
Asset classes	**Gross outstanding**	**Net exposure after credit**	**Exposure before CRM**	**CRM**	**After CRM**	
Claims on sovereign	1,453,497	1,246	1,454,743	-	1,454,743	-
Claims on (PSEs)	958,934	127,143	1,086,077	-	1,086,077	-
Claims on banks	1,074,621	39,591	1,114,212	40	1,114,172	272,280
Claims on securities firm	54,651	-	54,651	35,000	19,651	19,651
Claims on corporates	5,506,047	2,509,059	8,015,039	1,648,806	6,366,233	6,395,591
Claims included in retail portfolio	43,179	1,505	44,684	2,479	42,205	31,679
Claims secured by residential property	-	-	-	-	-	-
Claims secured by commercial real estate	247,917	-	247,917	10,457	237,460	237,460
Past due loans	577,584	42,436	198,275	24,335	173,940	236,408
High risk categories	119,182	-	118,338	-	118,338	177,507
Other assets	351,644	-	347,936	-	347,936	249,431
Total	10,387,256	2,720,980	12,681,872	1,721,117	10,960,755	7,620,007

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

Summary of exposure and credit risk mitigation at reporting date (all figures in AED 000):

	Exposure		Risk Weighted Assets	
	2011	2010	**2011**	2010
Gross exposure prior to credit risk mitigation	**12,888,028**	12,681,872	**8,212,384**	7,649,401
Less: exposure covered by on balance sheet netting	**-**	-	**-**	-
Less: exposure covered by eligible financial collateral	**1,563,396**	1,674,993	**8,952**	8,180
Less: exposure covered by guarantees	**279,977**	46,124	**138,090**	21,214
Less: exposure covered credit derivatives	**-**	-	**-**	-
Net exposure after credit risk mitigation	**11,044,655**	10,960,755	**8,065,342**	7,620,007

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

Analysis of the Bank's exposure at 31 December 2011 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

Gross Credit Exposures

Asset classes	Rated	Unrated	Total	Post CRM	Risk weighted assets
Claims on Sovereigns	-	1,350,273	1,350,273	1,350,273	-
Claims on PSE	-	1,203,722	1,203,722	1,203,722	-
Claims on securities firms	-	47,045	47,045	11,950	12,045
Claims on Banks	746,503		746,503	746,503	219,027
Claims on Corporate	-	5,819,479	5,819,479	4,813,669	4,813,669
Regulatory and other retail exposure	-	43,555	43,555	42,290	31,717
Residential retail exposure	-	1,757	1,757	1,757	615
Commercial Real Estate	-	237,330	237,330	224,507	224,507
Other assets	-	344,262	344,262	340,561	225,035
Total	**746,503**	**9,047,423**	**9,793,926**	**8,735,232**	**5,526,615**

Analysis of the Bank's exposure at 31 December 2010 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

Gross Credit Exposures

Asset classes	Rated	Unrated	Total	Post CRM	Risk weighted assets
Claims on Sovereigns	-	1,453,497	1,453,497	1,453,497	-
Claims on PSE	-	958,934	958,934	958,934	-
Claims-securities firms	-	54,651	54,651	19,651	19,651
Claims on Banks	1,074,621		1,074,621	1,074,621	253,439
Claims on Corporate	-	5,506,047	5,506,047	4,575,117	4,575,117
Regulatory and other retail exposure	-	43,179	43,179	41,778	31,333
Residential retail exposure	-	-	-	-	-
Commercial Real Estate	-	247,917	247,917	237,460	237,460
Other assets	-	351,644	351,644	347,936	249,431
Total	1,074,621	8,615,869	9,690,490	8,708,994	5,366,431

4 Financial risk management *(continued)*

b)* Credit Risk *(continued)

The Group continues to carry classified doubtful debts and delinquent accounts on its books even after making allowances for impairment in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement ("IAS 39"). However, interest is accrued on doubtful and legal accounts for litigation purposes only and accordingly interest is not taken to income. Such accruals increase gross loans and advances receivable. Loans and advances are written off only when all legal and other avenues for recovery or settlement are exhausted.

The movement during the year in the impairment provision and interest in suspense was as follows:

	Portfolio basis		**Specific basis**	
	2011	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000
At 1 January	**42,974**	34,113	**465,476**	606,474
Charge for the year	**6,976**	8,861	**106,625**	80,250
Recoveries during the year	-	-	**(19,133)**	(6,637)
Interest not recognised in the income statement (net)	-	-	**26,982**	16,182
Amounts written off during the year	-	-	**(190,065)**	(230,793)
	49,950	42,974	**389,885**	465,476

***c)* Liquidity Risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk can be segregated into two broad categories :

1) Funding Liquidity Risk is the risk that the Group will encounter difficulty in funding the increases in assets and meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets, without incurring unacceptable losses.

2) Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

Management of liquidity risk

Following the international economic crisis, liquidity risk management has remained at the helm of risk management and is also receiving the close attention of the Board of Directors.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group maintains a portfolio of short term liquid assets, largely made up of Central Bank's certificates of deposit ("CDs"), short-term liquid trading investments and inter-Group placements. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets (i.e., total assets by maturity against total liabilities by maturity) and its loans to stable deposit ratio.

Details of the Group's net liquid assets are summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayments and does not take account of the effective maturities as indicated by the Group's deposit retention history. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

4 Financial risk management *(continued)*

***c)* Liquidity Risk (continued)**

Maturities of assets and liabilities

	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 year AED'000	Total AED'000
At 31 December 2011				
Assets				
Cash and deposits with the UAE Central Bank	612,679	-	-	612,679
Loans and advances to banks	773,356	-	-	773,356
Customers' indebtedness for acceptances	392,449	69,410	12,124	473,983
Loans and advances to customers	2,106,587	3,434,640	2,307,352	7,848,579
Investment securities	518	180,107	342,585	523,210
Property and equipment	6,310	8,425	28,166	42,901
Other assets	11,491	47,165	69,590	128,246
Total assets	**3,903,390**	**3,739,747**	**2,759,817**	**10,402,954**
Liabilities and equity				
Deposits from other banks	112,187	5,509	-	117,696
Deposits from customers	3,888,632	3,230,245	420,599	7,539,476
Liabilities under acceptances	392,449	69,410	12,124	473,983
Other liabilities	24,945	25,296	99,139	149,380
Equity	116,650	-	2,005,769	2,122,419
Total liabilities and equity	**4,534,863**	**3,330,460**	**2,537,631**	**10,402,954**
At 31 December 2010				
Assets				
Cash and deposits with the UAE Central Bank	576,101	-	-	576,101
Loans and advances to banks	1,070,742	50,000	-	1,120,742
Customers' indebtedness for acceptances	363,971	50,651	7,472	422,094
Loans and advances to customers	1,385,579	2,219,135	3,914,641	7,519,355
Investment securities	1,025	234,184	299,217	534,426
Property and equipment	4,866	8,425	28,165	41,456
Other assets	9,746	16,244	56,186	82,176
Total assets	3,412,030	2,578,639	4,305,681	10,296,350
Liabilities and equity				
Deposits from other banks	79,026	-	-	79,026
Deposits from customers	3,697,432	3,504,751	440,395	7,642,578
Liabilities under acceptances	363,971	50,651	7,472	422,094
Other liabilities	88,529	42,690	11,066	142,285
Equity	174,450	-	1,835,917	2,010,367
Total liabilities and equity	4,403,408	3,598,092	2,294,850	10,296,350

Maturities of assets and liabilities have been determined on the basis of the outstanding period from the reporting date to the contracted or expected maturity dates.

4 Financial risk management *(continued)*

***c)* Liquidity Risk (continued)**

Residual contractual maturity of financial liabilities

The following table shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flow on these instruments may vary significantly from this analysis, for example demand deposits from customers are expected to maintain a stable or increasing balance.

2011	**Carrying amount AED'000**	**Gross nominal (outflow) AED'000**	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 year AED'000**
Non-derivative liabilities					
Deposits from banks	117,696	(117,907)	(112,188)	(5,719)	-
Deposits from customers	7,539,476	(7,689,908)	(3,941,221)	(3,316,816)	(431,871)
Liabilities for acceptances	473,983	(473,983)	(392,449)	(69,410)	(12,124)
Other liabilities	149,380	(149,380)	(24,945)	(25,296)	(99,139)
Derivative liabilities					
Trading: outflow	-	(1,560)	(1,560)	-	-
Trading: inflow	-	-	-	-	-
Total liabilities	**8,280,535**	**(8,432,738)**	**(4,472,363)**	**(3,417,241)**	**(543,134)**

2010	**Carrying amount AED'000**	**Gross nominal (outflow) AED'000**	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 year AED'000**
Non-derivative liabilities					
Deposits from banks	79,026	(79,338)	(79,338)	-	-
Deposits from customers	7,642,578	(7,897,840)	(3,820,926)	(3,621,810)	(455,104)
Liabilities for acceptances	422,094	(422,094)	(363,971)	(50,651)	(7,472)
Other liabilities	142,285	(142,285)	(88,529)	(42,690)	(11,066)
Derivative liabilities					
Trading: outflow	-	(980)	(980)	-	-
Trading: inflow	-	-	-	-	-
Total liabilities	**8,285,983**	**(8,542,537)**	**(4,353,744)**	**(3,715,151)**	**(473,642)**

***d)* Market Risk**

Market Risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates and credit spreads (not relating to change in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly include positions arising from the Group proprietary position, together with financial assets and liabilities that are managed on a fair value basis.

4 Financial risk management *(continued)*

d)* Market Risk *(continued)

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

Assets and liabilities repricing profile

	Effective Interest rate %	Less than 3 months	3 months to 1 year	1 to 5 year	Non-interest bearing	Total
		AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and deposits with the UAE Central Bank	0.60	150,000	-	-	462,679	612,679
Loans and advances to banks	0.28	703,138	-	-	70,218	773,356
Customers' indebtedness for acceptances		392,449	69,410	12,124	-	473,983
Loans and advances to customers	7.89	2,106,587	3,434,640	2,307,352	-	7,848,579
Investment securities	2.54	-	-	342,585	180,625	523,210
Property and equipment	-	-	-	-	42,901	42,901
Other assets	-	-	-	-	128,246	128,246
Total assets		**3,352,174**	**3,504,050**	**2,662,061**	**884,669**	**10,402,954**
Liabilities and equity						
Deposits from banks	1.05	33,327	5,509	-	78,860	117,696
Deposits from customers	2.68	1,962,278	3,230,245	420,599	1,926,354	7,539,476
Liabilities under acceptances		392,449	69,410	12,124	-	473,983
Other liabilities	-	-	-	-	149,380	149,380
Equity	-	-	-	-	2,122,419	2,122,419
Total liabilities and equity		**2,388,054**	**3,305,164**	**432,723**	**4,277,013**	**10,402,954**
Interest rate sensitivity gap		**964,120**	**198,886**	**2,229,338**	**(3,392,344)**	**-**
Cumulative interest rate sensitivity gap:						
As of 31 December 2011		**964,120**	**1,163,006**	**3,392,344**		
As of 31 December 2010		(44,192)	(1,279,808)	2,536,830		

4 Financial risk management *(continued)*

d)* Market Risk *(continued)

The assets and liabilities repricing profile has been determined on the basis of the final maturity period or interest repricing periods at the reporting date, whichever is earlier.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

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 Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Sensitivity analysis - Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and related income. The Group manages the risk principally through monitoring interest rate gaps and matching the re-pricing profile of assets and liabilities. The Group also assesses the impact of defined movement in interest yield curves on its net interest income. The following is the impact of interest rate movement on interest income and regulatory capital.

Shift in yield curve	**2011**	2010
	AED '000	AED '000
+200 b.p. (annual basis)	**61,056**	59,195
-200 b.p. (annual basis)	**(61,056)**	(59,195)

A substantial portion of the Group's assets and liabilities are re-priced within 1-year. Accordingly there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 8,954 million of monthly average interest bearing assets and AED 5,901 million of monthly average interest bearing liabilities (31 Dec 2010: AED 8,951 million average interest bearing assets and AED 5,991 million average interest bearing liabilities.) The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

Equity price risk

Equity price risk arises from investments in fair value through profit or loss and FVTOCI equity securities. The management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the management. The Group manages this risk through diversification of investments in terms of industry distribution.

The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy, certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

Sensitivity analysis - equity price risk

Most of the Group's equity investments are listed either on the Dubai Financial Market or the Abu Dhabi Securities Market. For such investments classified as fair value through other comprehensive income, a 5% increase in the two markets at the reporting date would have increased equity by AED 4.44 million (31 December 2010: AED 5.84 million) and an equal change in the opposite direction would have decreased equity by a similar amount. For investments classified as fair value through profit or loss, the impact on the income statement would have been an increase or decrease of AED 0.02 million (31 December 2010: AED 0.05 million).

4 Financial risk management *(continued)*

d)* Market Risk *(continued)

Foreign currency risk

Invest Bank engages in limited trading in foreign exchange on its own account. Its treasury activity is mainly directed to assisting its customers in managing their foreign exchange exposures. A system of exposure limits is in place to control price risk on foreign exchange exposures and a system of individual credit limits is in place to control counter-party risk. The amount mentioned in the table below reflects the equal but opposite potential effect on income statement and equity based on a 1% negative or positive currency fluctuation, with all other variables held constant.

At the reporting date, the Group has the following net open currency exposures in respect of un-pegged currencies:

	2011 - AED '000			2010 - AED '000		
	Total	**Impact on income statement**	**Impact on equity**	Total	Impact on income statement	Impact on equity
British Pound	**-**	**-**	**-**	948	9	-
Euro	**1,824**	**18**	**-**	(2,244)	(22)	-
Lebanese Pound	**91,309**	**-**	**913**	117,203	-	1,172

***e)* Operational Risk**

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

Operational risks emanate from every segment of Group's operation and are faced by all the business units.

The Group has taken measures to put in place tools, firstly to identify all such operational risks. The Group has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Group's reputation.

For this purpose the Group has hired a consulting firm that specialises in providing expertise in managing all risks, contracted to put in place a dedicated software which is currently under testing. Implementation of Standardised approach will be carried out in phases, following data collection of the identified Key risk indicators (KRI's), Key performance indicators (KPI's) and Risk control and self assessment (RCSA).

In addition to the reviews by internal audit, the compliance with policies and procedures will now be strengthened by reviews of compliance and operational risk manager.

In order to ensure a structured and focused Operational risk management ("ORM") process, the Group has also formed an ORM committee whose mandate is to oversee ORM process, consider each operational risk in order of "Priority by significance", to develop policies, processes and procedures for managing operational risk in all of the Group's material products, activities, processes and systems as well as recommend best way to integrate the ORM in the overall organisation wide risk management process.

4 Financial risk management *(continued)*

***f)* Capital risk management and Basel II requirements**

Capital allocation

The Bank's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Group's objective when managing capital are as follows.

- Safeguarding the Group's ability to continue as a going concern and increase return for shareholders; and
- Comply with regulatory capital set by Central Bank of UAE.

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

The Bank also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the banking book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Bank is in the process of introducing the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis to reflect the risk substituting framework for the loan assets. RAROC calculations are being built into the implemented Credit Appraisal System.

The Bank's regulatory capital adequacy ratio is set by the Central bank of UAE ('the Central Bank'). The Bank has determined its regulatory capital as recommended by the New Basel II Capital Accord, in line with the guidelines of the UAE Central Bank with effect from 2007. The Bank has adopted a standardised approach for credit risk and market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB by 2014 and 2018 respectively. The Bank have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year. The Central Bank has advised that the capital adequacy ratio should be 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% .

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and

- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on investments classified as FVTOCI and derivatives held as cash flow hedges, general provision and subordinated term loans. The following limits have been applied for Tier 2 capital:

- Total tier 2 capital shall not exceed 67% of tier 1 capital;
- Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
-General provision shall not exceed 1.25% of total risk weighted assets.

4 Financial risk management *(continued)*

f)* Capital risk management and Basel II requirements *(continued)

The Bank's regulatory capital position at 31 December was as follows:

TIER 1 CAPITAL

	2011 AED '000	2010 AED '000
Share capital	**1,155,000**	1,155,000
Legal reserves	**297,009**	265,279
Special reserves	**297,009**	265,279
Retained earnings	**211,456**	188,356
Total tier 1 capital	**1,960,474**	1,873,914
TIER 2 CAPITAL		
Asset revaluation reserves	**(91,892)**	(37,997)
General provisions/general loan loss reserves	**49,950**	42,973
Subordinated debt	**403,805**	403,805
Total tier 2 capital	**361,863**	408,781
Total regulatory capital (Sum of tier 1 and 2 capital)	**2,322,337**	2,282,695
RISK WEIGHTED ASSETS		
Credit risk	**8,065,342**	7,620,006
Market risk	**86,846**	30,383
Operational risk	**627,397**	596,518
Total risk weighted assets (RWA)	**8,779,585**	8,246,907
Total regulatory capital expressed as % of RWA	**26.45%**	27.68%
Total tier 1 capital expressed as % of RWA	**22.33%**	22.72%

Tier-2 Capital at 31 December 2011 as shown above includes subordinated debt from The Ministry of Finance of the U.A.E. amounting to AED 403,805 million (refer note 14).

4 Financial risk management *(continued)*

f)* Capital risk management and Basel II requirements *(continued)

Total capital requirement for market risk under standardised approach as per BASEL II Pillar 3 is as follows:

	2011 - AED '000		2010 - AED '000	
	Capital required	**Risk weighted assets**	**Capital required**	**Risk weighted assets**
Interest rate risk	-	-	-	-
Equity position risk	**83**	**691**	164	1,370
Foreign exchange risk	**10,343**	**86,155**	3,483	29,013
Commodity risk	-	-	-	-
Total capital requirement	**10,426**	**86,846**	3,647	30,383

5 Classes and categories of financial instruments

Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values.

At 31 December 2011	**FVTPL**	**FVTOCI**	**Others at amortised cost**
	AED '000	**AED '000**	**AED '000**
Financial assets			
Cash and deposits with the UAE Central Bank	-	-	612,679
Loans and advances to banks	-	-	773,356
Loans and advances to customers	-	-	7,848,579
Trading securities -Quoted equities	518	-	-
Investment in equities	-	180,110	-
Sukuk / Bonds	-	-	342,582
Interest receivable	-	-	37,761
	518	**180,110**	**9,614,957**
Financial liabilities			
Customer deposits	-	-	7,539,476
Deposits from other banks	-	-	117,696
Interest payable	-	-	77,204
	-	-	**7,734,376**

At 31 December 2010			
Financial assets	FVTPL	FVTOCI	Others at amortised cost
Cash and deposits with the UAE Central Bank	-	-	576,101
Loans and advances to banks	-	-	1,120,742
Loans and advances to customers	-	-	7,519,355
Trading securities -Quoted equities	1,025	-	-
Investment in equities	-	234,184	
Sukuk / Bonds	-	-	284,347
Interest receivable	-	-	39,855
	1,025	234,184	9,540,400
Financial liabilities			
Customer deposits	-	-	7,642,578
Deposits from other banks	-	-	79,026
Interest payable	-	-	70,914
	-	-	7,792,518

6 Use of estimates and judgments

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies are as follows.

(a) *Impairment losses on financial instruments carried at amortised cost*

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently approved by credit risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolio of loans and advances and investment securities measured at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items can not yet be identified. In assessing the need for collective loss allowances, management considers factor such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimate of the future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(b) *Fair value of derivatives and unquoted securities*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values, these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however area such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

7 Segmental analysis

The Group operates in one geographic area, the United Arab Emirates, and its results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

	Dec-11			Dec-10		
	Commercial Banking	**Treasury and Investments**	**Total**	Commercial Banking	Treasury and Investments	Total
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Year ended						
Net interest and other income	**467,605**	**58,005**	**525,610**	418,501	66,498	484,999
Net impairment losses	**(83,868)**	**(10,600)**	**(94,468)**	(82,474)	-	(82,474)
Net profit for the year	**273,227**	**44,070**	**317,297**	241,014	59,849	300,863
Segment capital expenditure	**7,058**	**-**	**7,058**	5,291	-	5,291
Segment depreciation	**5,613**	**-**	**5,613**	5,340	-	5,340
At 31 December						
Segment total assets	**8,864,482**	**1,538,472**	**10,402,954**	8,282,874	2,013,476	10,296,350
Segment total liabilities	**8,240,530**	**40,005**	**8,280,535**	8,199,742	86,241	8,285,983

8 Cash and deposits with the UAE Central Bank

	2011	2010
	AED'000	AED'000
Cash in hand	**58,489**	61,600
Deposits in current a/c with the UAE Central Bank (CB)	**134,468**	59,926
Placements in certificates of deposit with CB	**150,000**	200,000
Statutory reserve deposits with CB	**269,722**	254,575
	612,679	576,101

Statutory reserve deposits are required to be maintained as per regulations of the UAE Central Bank; these deposits are not available for the Group's day-to-day operations and are non-interest bearing.

9 Loans and advances to banks

	2011 AED'000	2010 AED'000
Money market placements	**580,000**	932,657
Items in course of collection	**193,356**	188,085
	773,356	1,120,742

10 Investment securities

	2011 AED'000	2010 AED'000
Financial assets at fair value through profit or loss (FVTPL)		
- quoted equities	**518**	-
- non quoted bonds	**-**	1,025
Financial assets at fair value through other comprehensive income (FVTOCI)		
- equities	**180,110**	234,184
Financial assets at amortised costs		
- bonds/sukuks	**342,582**	299,217
	523,210	534,426

FVTOCI equities include an unquoted equity investments held as strategic investments in First National Bank, Lebanon ("FNB") of AED 91.3 million (2010: AED 117.2 million), which represents and 15.57% interest in FNB. At 31 December 2011, the fair value of this investment is determined using comparable market value approach (2010: comparable market value approach), resulting in fair value loss of AED 25.9 million (2010: AED NIL) recognised in other comprehensive income.

All FVTOCI equities are quoted other then investment in FNB as stated above.

Revaluation reserve

At 31 December 2011, the negative revaluation reserve of AED 91.8 million (2010: negative revaluation reserve of AED 37.9 million) includes net fair value losses of AED 72.1 million (2010: loss of AED 44.03 million) on FVTOCI equity securities which are recognised in other comprehensive income.

Net (losses)/gains from investment securities

Net (losses)/gains from investment securities have the following components for the year ended 31 December:

	2011 AED'000	2010 AED'000
Realised gains / losses on sale of financial assets at fair value through profit or loss	**-**	2,131
Fair value adjustment for financial assets at fair value through profit or loss	**(687)**	(4,165)
	(687)	(2,034)

10 Investment securities *(continued)*

Fair Value Hierarchy

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

At 31 December 2011

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities -Quoted equities	**518**	-	-	**518**
FVTOCI- financial assets	**84,975**	**95,135**	-	**180,110**
	85,493	**95,135**	-	**180,628**

At 31 December 2010

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities -Quoted equities	1,025	-	-	1,025
FVTOCI- financial assets	113,155	121,029	-	234,184
	114,180	121,029	-	235,209

11 Property and Equipment

	Land and building AED'000	Office installation and improvements AED'000	Office furniture and equipment AED'000	Motor vehicles AED'000	Total AED'000
Cost					
At 1 January 2011	42,215	17,287	35,711	760	95,973
Additions	-	2,209	4,849	-	7,058
Disposals/ transfer	-	-	-	(335)	(335)
At 31 December 2011	**42,215**	**19,496**	**40,560**	**425**	**102,696**
Accumulated depreciation					
At 1 January 2011	16,544	9,692	27,946	335	54,517
Charge for the year	4	1,607	3,860	142	5,613
Disposals/ transfer	-	-	-	(335)	(335)
At 31 December 2011	**16,548**	**11,299**	**31,806**	**142**	**59,795**
Net book value at 31 December 2011	**25,667**	**8,197**	**8,754**	**283**	**42,901**
Cost					
At 1 January 2010	42,215	15,968	32,165	335	90,683
Additions	-	1,319	3,546	425	5,290
Disposals/ transfer	-	-	-	-	-
At 31 December 2010	**42,215**	**17,287**	**35,711**	**760**	**95,973**
Accumulated depreciation					
At 1 January 2010	16,539	8,206	24,097	335	49,177
Charge for the year	5	1,486	3,849	-	5,340
Disposals/ transfer	-	-	-	-	-
At 31 December 2010	**16,544**	**9,692**	**27,946**	**335**	**54,517**
Net book value at 31 December 2010	**25,671**	**7,595**	**7,765**	**425**	**41,456**

12 Other assets

	2011	2010
	AED'000	AED'000
Interest receivable	**37,761**	39,855
Investment properties	**25,550**	28,030
Prepayments and other assets	**64,935**	14,291
	128,246	82,176

The Group had acquired two properties in settlement of debt. These properties are classified as investment properties. The management adopted a fair value model and revalued these properties to their estimated fair value based on a professional valuation performed by an independent real estate valuers. The change in fair value was recorded in other operating income.

13 Deposits from other banks

	2011	2010
	AED'000	AED'000
Placements with banks	**23,874**	25,000
Items in course of settlement	**78,860**	50,131
Demand deposits	**14,962**	3,895
	117,696	79,026

14 Deposits from customers

	2011	2010
	AED'000	AED'000
Time deposits	**5,613,122**	6,033,103
Savings accounts	**106,759**	193,511
Current and other accounts	**1,819,595**	1,415,964
	7,539,476	7,642,578

Customer deposits by geographical area are as follows:

	2011	2010
	AED'000	AED'000
Within the UAE	**7,505,194**	7,604,613
Others	**34,282**	37,965
	7,539,476	7,642,578

Time deposits include deposits of AED 404 million (2010: AED 404 million) received from the Ministry of Finance, United Arab Emirates. On 25 March 2009, the Shareholders resolved to convert these deposits into subordinated debt authorising the Board of Director to undertake necessary action to execute the agreement with the Ministry of Finance. On 30 December 2009, the Board of Directors resolved approving the term of the agreement for conversion of the above deposits and the signed agreement dated 31 December 2009 (re-categorization date) was submitted by the Group to the Ministry of Finance. As per the terms of the agreement these deposits can now be treated as subordinated to equity as lower Tier 2 capital in accordance with the conditions as set out in the agreement. The subordinated debt carries interest at 4% for the first two years, 4.5% and 5% for third and fourth years respectively and 5.25% thereafter, until the maturity of loan in December 2016.

15 Other liabilities

	2011 AED'000	2010 AED'000
Interest payable	**77,204**	70,914
Unearned commission income	**22,435**	26,158
Staff benefits payable	**14,250**	11,974
Accrued expenses	**11,231**	9,630
Managers' cheques	**4,750**	8,059
Others	**19,510**	15,550
	149,380	142,285

16 Capital and Reserves

At 31 December 2011, the Bank authorised, issued and fully paid share capital was AED 1,155 million comprises 1,155 million shares of AED 1 each (at 31 December 2010: AED 1,155 million comprising 1,155 million shares of AED 1 each).

Proposed dividend

The Board of Directors has proposed to the shareholders a cash dividend of AED 115.5 million for 2011 (2010 : AED 173.2 million) being 10% of the paid up share capital (2010: 15%) and a bonus dividend of AED 95 million (2010 : AED NIL) being 8.225% of paid up share capital.

During the period, the Bank paid AED 150.15 million (2010: AED 138.6 million) as cash dividend to the shareholders, as approved by the UAE Central Bank.

Reserves

In accordance with Article 82 of Federal Law No.10 of 1980, a transfer equivalent to 10% of net profit, if any, is made annually to the legal reserve until this reserve equals to 50% of the share capital.

In accordance with the Bank's Articles of Association, as a minimum 10% of net profit is transferred annually to a special reserve which will be used for purposes to be determined by the ordinary general meeting upon a proposal being made by the Board of Directors.

17 Net interest income

	2011	2010
Interest income :	**AED'000**	AED'000
Loans and advances to banks	**4,996**	6,421
Certificates of deposit	**1,220**	2,821
Performing loans	**622,804**	589,573
	629,020	598,815
Interest expenses :		
Deposits from other banks	**(164)**	(146)
Time deposits	**(233,023)**	(241,459)
Call deposits	**(2,306)**	(2,770)
Savings accounts and others	**(1,937)**	(2,282)
	(237,430)	(246,657)
	391,590	352,158

18 Net fees and commission income

	2011	2010
Fees and commission income :	**AED'000**	AED'000
Letters of credit fee	**24,625**	24,137
Letters of guarantee fee	**50,948**	47,447
Retail and corporate lending fees	**11,595**	13,610
Minimum balance fees	**155**	237
Commission on transfers	**4,442**	4,637
Others	**18,041**	18,985
	109,806	109,053
Fees and commission expenses :		
Service charges	**(326)**	(309)
Others	**(27)**	(52)
	(353)	(361)
	109,453	108,692

19 Other operating income

	2011	2010
	AED'000	AED'000
Fair value loss on investment property	**(2,480)**	(3,465)
Dividends on investment securities	**5,267**	4,928
Other income	**1,025**	3,345
Rental income	**617**	691
	4,429	5,499

20 General and administrative expenses

	2011 AED'000	2010 AED'000
Payroll and related costs	**84,450**	77,201
Occupancy	**7,960**	6,968
Others	**12,550**	10,544
	104,960	94,713

21 Provision for other expenses

	2011 AED'000	2010 AED'000
Depreciation	**5,613**	5,340
Provision for staff terminal benefits	**3,272**	1,610
	8,885	6,950

22 Earnings per share

	2011	2010
Basic earnings per share is calculated as follows:		
Net profit for the year AED ('000)	**317,297**	300,862
Weighted average number of shares outstanding at 31 December ('000)	**1,155,000**	1,155,000
Basic earnings per share AED	**0.275**	0.260

At reporting date the Group do not have any instrument resulting in dilution of basic earnings per share.

23 Cash and cash equivalents

Cash and deposits with the UAE Central Bank include certificates of deposit amounting to AED 150 million (2010: AED 200 million) with the UAE Central Bank that mature within three months.

	2011 AED'000	2010 AED'000
Cash and deposits with the UAE Central Bank	**612,679**	576,101
Due from other banks maturing within three months	**773,356**	1,070,742
Deposits from other banks maturing within three months	**(112,187)**	(79,026)
	1,273,848	1,567,817

23 Cash and cash equivalents *(continued)*

Cash and deposits with the UAE Central Bank include AED 269.7 million (2010: AED 254.5 million) comprising mandatory reserves with the U.A.E. Central Bank which are not available for use in the Group's day to day operations.

24 Related party transactions

In the normal course of business, the Group enters into various transactions with related parties including key management personnel and their related companies. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties, which in opinion of the management are not significantly different from those that could have been obtained from third parties. The volume of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	Key management personnel 2011 AED'000	**Companies associated with key management personnel 2011 AED'000**	Key management personnel 2010 AED'000	Companies associated with key management personnel 2010 AED'000
Loans				
Loans outstanding at 1 January	**79,784**	**256,387**	118,295	286,535
Loans issued during the year	**52,113**	**149,881**	50,926	73,222
Loan repayments during the year	**(54,061)**	**(53,252)**	(89,437)	(103,370)
Loans outstanding at 31 December	**77,836**	**353,016**	79,784	256,387
Interest income earned during the year	**6,479**	**25,257**	6,989	27,862
Outstanding letters of credit and guarantees at 31 December	**4,198**	**28,179**	4,048	24,600

No provisions have been recognised in respect of loans granted to related parties (2010: Nil).

The loans extended to directors during the year are repayable over 1 year and bear interest at rates ranging from 6.5 % to 11 % per annum (2010: 7% to 12.%). At 31 December 2011, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 309.2 million (2010: AED 216.1 million).

	Key management personnel 2011 AED'000	**Companies associated with key management personnel 2011 AED'000**	Key management personnel 2010 AED'000	Companies associated with key management personnel 2010 AED'000
Deposits				
Deposits at 1 January	**204,979**	**649,285**	161,411	535,349
Deposits received during the year	**88,155**	**198,037**	106,450	151,033
Deposits repaid during the year	**(50,541)**	**(43,125)**	(62,882)	(37,097)
Deposits at 31December	**242,593**	**804,197**	204,979	649,285
Interest expense during the year	**7,028**	**21,627**	7,701	25,669

24 Related party transactions *(continued)*

	2011 AED'000	2010 AED'000
Key management compensation		
Salaries and other short term benefits	**10,780**	10,190
Termination benefits	**275**	230
	11,055	10,420

Proposed directors' remuneration

Subsequent to the reporting date, the Board of Directors proposed their remuneration in the amount of AED 1.05 million *(2010: AED 1.2 million).*

25 Commitments and contingent liabilities

At any time Bank has outstanding commitment to extend credit. These commitment take the form of approved loan facilities. Outstanding loan commitment have committed periods that do not extend beyond the normal underwriting and settlement period.

The Bank provides financial guarantees and letter of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend up to period of one year.

The contractual amount of commitments and contingent liabilities are set out in the following table by category.

	2011 AED'000	2010 AED'000
Letters of credit	**403,845**	413,924
Letters of guarantee	**4,210,285**	3,989,523
Commitment to extend credit	**1,275,829**	1,333,106
Foreign exchange and forward commitments	**1,560**	980
	5,891,519	5,737,533

Commitment to extend credit represent unused portions of authorisations to extend credit in form of loans. With respect to credit risk on commitments to extend credit, the Group 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 considered less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Exposure by geography as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2011	2010	**2011**	2010	**2011**	2010
United Arab Emirates	**1,275,829**	1,333,106	**1,560**	980	**3,964,892**	4,023,884
GCC Excluding UAE	-	-	-	-	**649,238**	379,563
	1,275,829	1,333,106	**1,560**	980	**4,614,130**	4,403,447

25 Commitments and contingent liabilities *(continued)*

Exposure by currency as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2011	2010	**2011**	2010	**2011**	2010
Foreign Currency	**-**	-	**1,560**	980	**655,107**	415,771
AED	**1,275,829**	1,333,106	**(1,560)**	(980)	**3,959,023**	3,987,676
Total	**1,275,829**	1,333,106	**-**	-	**4,614,130**	4,403,447

Exposure by industry segment as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2011	2010	**2011**	2010	**2011**	2010
Agriculture, fishing and	**-**	-	**-**	-	**21**	-
Crude Oil, Gas, Mining	**4,492**	-	**-**	-	**23,582**	2,732
Manufacturing	**269,149**	14,523	**-**	-	**616,507**	498,830
Electricity and Water	**42**	-	**-**	-	**-**	-
Construction	**409,370**	990,562	**-**	491	**2,634,525**	1,847,262
Trade	**185,818**	-	**1560**	489	**821,123**	810,185
Transport, Storage and	**7,022**	-	**-**	-	**51,314**	19,687
Financial Institutions	**37,196**	-	**-**	-	**26,261**	13,733
Services	**44,284**	-	**-**	-	**364,967**	218,808
Government	**224**	-	**-**	-	**16,469**	150,477
Retail/ Consumer	**50,129**	-	**-**	-	**2,060**	796,387
All Others	**268,103**	328,021	**-**	-	**57,301**	45,346
Total	**1,275,829**	1,333,106	**1,560**	980	**4,614,130**	4,403,447

Exposure by currency as on 31 December

	Commitment to extend credit		Foreign exchange and		Other Commitments and contingent liabilities	
	2011	2010	**2011**	2010	**2011**	2010
Less than 3 months	**540,212**	533,242	**1,560**	980	**1,552,123**	1,541,206
3 months to one year	**735,617**	799,864	**-**	-	**3,062,007**	2,862,241
One to five years	**-**	-	**-**	-	**-**	-
Total	**1,275,829**	1,333,106	**1,560**	980	**4,614,130**	4,403,447

26 Customers indebtedness for acceptances

Customers' indebtedness for acceptances represents the accepted documented liability amount which is recoverable from the respective customers of the Group at the reporting date. **Liabilities under acceptances** represents bills of exchange, letters of credit etc where the Group has accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Group does not have a legal right of set-off.

27 Comparative figures

Certain comparative figures have been reclassified where necessary to conform to current year's presentation.