Emirates NBD

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EMIRATES NBD (PJSC)

BASEL II – PILLAR III DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2009

Emirates NBD

Contents

OVERVIEW

In compliance with the Central Bank of U.A.E. guidelines and Basel II accord; these disclosures include information on the Group's risk management objectives and policies, risk assessment processes and computation, capital management and capital adequacy.

Quantitative information on risk assessment (per standardized approach) includes:

- Risk weighted assets of the Group - credit risk, market risk and operational risk
- Credit risk profile of gross credit exposure by counterparty classifications, rated/ unrated
- Profile of gross credit exposure by economic activity, geographical region and maturity
- Profile of credit risk mitigation by economic activity, geographical region and maturity
- Profile of impaired loans by economic activity and geographical region

Information on capital adequacy includes:

- Capital adequacy computation
- Capital profile – Tier I and Tier II

Overall Risk management framework and processes:

The complexity in the Group's business operations and diversity of geographical locations requires identification, measurement, aggregation and effective management of risk. The Group manages its risks through a comprehensive risk management framework which incorporates organizational structure, risk measurement and monitoring processes.

The key features of the Group's comprehensive risk management framework are:

- Risk management is embedded in the Group as an intrinsic process
- The Board of Directors (the Board) has the overall responsibility of managing risk and provides the overall risk management direction and oversight.
- The Group's risk appetite is determined by the EXCO and approved by the Board.
- The Group's overall risk management policies are managed by the Group risk management function ("Group risk"), headed by the Chief Risk Officer ("CRO"). This function is independent of the business divisions.
- Credit, market, operational and liquidity risks are managed in a coordinated manner within the organization.
- Board committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework.

The Group risk assists senior management in controlling and actively managing the Group's overall risk profile. This function also ensures that:

- Risk policies, procedures and methodologies are consistent with the Group's risk appetite.
- The Group's overall business strategy is consistent with its risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.

Scope and nature of risk reporting tools:

The comprehensive risk management framework enables the Group to identify, assess, manage and monitor risks using a range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in commercial and consumer lending, collateral coverage ratios, limit utilisations and past due alerts.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis).
- Quantification of exposures to losses due to extreme and sudden movements in market prices or rates.

Risk management process:

Through the risk management framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations, are escalated to the management for appropriate and timely action.

Credit Risk

Credit Risk is the risk that a customer or counterparty will fail to meet a commitment thereby, resulting in a financial loss to the Group. Credit risk also captures 'Settlement risk , which is the risk of a counterparty failing to deliver on a financial markets transaction at settlement, and 'Residual risk', which arises from an insufficient ability to realize collaterals later.

Credit risk management and structure:

The approach to credit risk management is based on the foundation of preserving the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures in the business segments.

The Group's credit policy focuses on the core credit policies and includes lending parameters, target businesses, specific policy guidelines, management of high risk customers, provisioning guidelines and cross over activity.

The Board and the Board Credit and Investment Committee ("BCIC") have delegated authority to certain members of the senior management to facilitate and effectively manage the business. A chain of specific delegated limits are vested upon individuals starting from business unit levels to the Chief Executive Officer ("CEO"). However, the board and the BCIC retain the ultimate authority to approve larger credits.

Independent functions within Group risk manage credit risks on the corporate and retail portfolios.

Management of Corporate Credit Risk:

The process for managing corporate credit risk is as follows:

- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends and the customer's standing within the industry.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations.
- Borrower risk grading – Presently each borrower is rated on a scale of 1 to 5, in line with the Central Bank of UAE requirements. In preparation for Internal Rating models, each borrower is also in parallel risk graded along a 28 grade Masterscale according to its risk characteristics. The Masterscale introduced during the latter part of the year has 24 performing grades from 1a to 4f and four non-performing or default grades from 5a to 5d. Rating models have been developed and implemented across various business segments of the Group, and are presently under validation/testing.
- Management of high risk accounts – This includes identification of delinquent accounts and controls applicable for close monitoring. Policies on interest suspension and provisioning are strictly adhered to thereby reflecting actual income and quality of assets.
- Exceptions monitoring and management – Exceptions are monitored and managed in line with credit policies.

Management of Consumer Credit Risk:

- An independent unit formulates retail credit policies and monitors compliance.
- Policies are reviewed and updated on a regular basis to ensure that current market trends are considered on a timely basis.
- Retail lending is handled through a workflow driven system that assists underwriters in assigning limits and in the approval of exceptions.
- All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk and reward dynamics.
- The risk grade of an account reflects the associated risks measured by the delinquency history. Application and behavior PDs are used to map retail exposures to the Emirates NBD Masterscale, which is presently under validation/testing.

Credit Risk Monitoring:

The Group's exposures are continuously monitored through a system of triggers and early warning signals, which are used in the risk grading process. These are supplemented by monitoring of account conduct, valuation of collateral and market intelligence.

The health of the Group's credit portfolio is continuously assessed/ monitored on the basis of exception/management information reports/ returns generated by the business units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management is aware of shifts in the credit quality of the portfolio along with changing external factors

A specialised "Special Loans Group" team handles the management and collection of problem credit facilities.

Development and Testing for Advanced Models (BII - IRB Approach)

The Group has, over the years, committed to enhance Risk Management tools and practices, as a strategic business advantage. Credit Risk management is at the forefront of such developments, and following paragraphs describe the present state of play.

Emirates NBD Masterscale

The group has developed and is in the process of implementing a new ratings Masterscale comprising of 24 performing and 4 non performing grades. The rating Masterscale is the first step towards having a consistent view on credit risks across counterparties and products i.e. retail, corporate, small and medium enterprises, sovereigns, banks and financial institutions

Corporate and SME Models

Like most financial institutions in the region, Credit Risk in unrated corporate segments has not been amenable to a high degree of quantification (e.g. calculation of PD, LGD, EAD, etc) similar to advanced economies elsewhere. The bank has developed internal models to determine the probability of default for corporate and SME segments of the portfolio. However, the absence of sufficient numbers of defaults required to statistically validate these models are still not available since the market has been witnessing growth in the last decade. These models are therefore judgmental models. Similarly, transparency and reliability in the Corporate and SME financial statements is not up to desired standards and hence restricts the models ability to predict outcomes reliably and consistently. However, all efforts are being made to ensure that models are refined on an ongoing basis to improve their predictive power. The developments have also been constrained by the absence of good financial and economic data in public domain.

Financial Institutions Models

The group has also developed internal models for its banks and financial institutions portfolios. These models have been developed using the shadow ratings approach which has proved during the recent turmoil to be more accurate than relying purely on the external rating agencies as banks internal processes and procedures have been aligned to ensure that deterioration in credit quality of the counterparties are picked up proactively through early warning signals monitoring. This ensures that the group revises its strategy for risky counterparties in a timely manner.

Retail Scorecards

The credit underwriting has gone through a complete overhaul with the introduction of application and behavior scorecards for all retail offerings. Application scorecards are used to approve or reject customers while behavior scorecards are used in cross-selling campaigns, collections and portfolio monitoring. The group plans to introduce risk based pricing in 2010.

The following chart provides an overview of the rating landscape at Emirates NBD. It can be seen that most of the rating models were implemented in 2009.

	Model development	Implementation	Roll-out Date
Corporate			
• Corporates with Financial Statements	Ready	Completed	Q3 2009
• Corporates without Financial Statements	Ready	Completed	Q3 2009
• SMEs with Financial Statements	Ready	Completed	Q3 2009
• SMEs without financial statements	Ready	Completed	Q3 2009
Retail			
• Personal Loans (Nationals)	Ready	Completed	June 09
• Personal Loans (Expatriates)	Ready	Completed	July 09
• Auto Loans	Ready	Completed	Aug 09
• Credit Cards	Ready	Completed	Nov 09
• Home Loans	Ready	Completed	Apr 09
Islamic Products			
• Vehicle Murabaha	In Progress	Not Started	2010
• Goods Murabaha	Not Started	Not Started	2010
• Credit Cards	Completed	Not Started	2010
• Other Murabaha	Not Started	Not Started	2010
Consumer Finance			
• Product Finance	Completed	Product rolled back	
• Unsecured Personal Loans	Completed	Completed	Q2 2009
Specialized Lending			
• Project Finance	Not Started	Not Started	2010
• Object Finance	Not Started	Not Started	2010
• Commercial Real Estate	Not Started	Not Started	2010
Financial Institutions & Banks	Completed	Completed	Oct 09
Sovereigns	Not Started	Not Started	Q2 2010

Group credit risk mitigation strategy:

The Group operates within:

1. Exposure ceilings imposed by the Central Bank of the UAE;
2. Exposure ceilings imposed by the Board / BCIC / Management;
3. Country limits approved by the Board / BCIC / Management; and
4. Various sectoral / product ceilings.

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by setting customer, industry and geographical limits.

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the Group, where appropriate, to limit its exposure.

Collateral management:

Credit risk assessment identifies the primary sources of repayment which are the obligor's normal business cash flows and/or normal personal income. Where credit facilities are secured by a collateral, the Group seeks to ensure the enforceability of the facilities.

Acceptable collateral includes deposit marked with lien, mortgage over land and property, movable assets including inventory, securities, investment grade bonds, gold and guarantees. The maximum lending value and the valuation frequencies are documented in the corporate credit policy.

Collaterals are revalued as a general rule as per the policy. However adhoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed.

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use non-cash collateral for its own operations.

Loans with renegotiated terms

Loans with renegotiated terms are loans, the repayment plan of which have been restructured to align with the changed cash flows of the borrower with no other concessions by way of reduction in the amount or interest, but in some instances with improved security. These loans are treated as standard loans and continue to be reported in the renegotiated loans category until satisfactory compliance with the revised terms for a period of twelve months from the date of restructuring. Renegotiated loans are secured by a combination of tangible security and corporate/ personal guarantees.

Impairment assessment

The asset portfolio is reviewed at least quarterly at a minimum or as often as necessitated. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per the credit policy on risk grades. Impaired assets are classified as such through approvals on a credit memorandum and reported at least on quarterly intervals to the Board sub committees.

Watch list

The asset portfolio is reviewed quarterly at a minimum. Potential problem credits are identified in time and transferred to "watch list" category and monitored closely.

Past due but not impaired

Exposures where contractual interest or principal payment are past due for more than 90 days but the group believes on individual assessment that the impairment is not appropriate considering the borrower's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of borrower's receivables and/or the stage of collection of the amounts owed to the group.

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Definition of default

A counterparty is marked as default:

(a) In case of Corporate Exposures, if the Group considers the counterparty unlikely to pay due to one of the following conditions:
  - A material credit obligation has been put on non-accrual status.
  - Distressed restructuring of a credit obligation.
  - Selling of a credit obligation at an economic loss.
  - The Group or a third party has filed for the counterparty's bankruptcy.

(b) In case of Retail, if the exposure is past due for more than 90 days, it is considered to be in default.

Measurement of specific impairment

Corporate: The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. The impairment losses are evaluated at each reporting date. Allowances are made in accordance with IFRS where early warning signs of losses are evident. Specific impairment is assessed when a credit exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days.

Retail: Criteria for provisions is based on products, namely, credit cards and other retail loans. All retail loans are classified as non-performing at 90 days and provisions are made in line with the Group's income and loss recognition policies.

Measurement of collective impairment

Provisions for collective impairment are made based on the IAS 39 guidelines. Impairments that cannot be identified with an individual loan are identified on a portfolio basis. The Group has adopted the following methodologies for determining the collective portfolio impairment provisions:

Corporate: Historical loss rates for different industry sectors are calculated to determine the collective impairment provisions for the corporate portfolios. To ensure that the impact of economic cycles is incorporated, the loss rates are benchmarked against published default histories observed over economic cycles in different markets. Industry specific adjustments are made to reflect the current market conditions. A number of stress scenarios are run to ensure that the reserves are adequate and reflect a realistic level of collective impairment provisions.

Retail: Collective impairment provisions for the retail portfolios are determined based on a flow rates methodology. Flow rates for various retail loan products are monitored over a period of time to determine the average flow rates. The flow rates and average loss rates for various historical windows are considered to determine the appropriate level of collective impairment provisions.

Write offs

Corporate: Facilities where partial loss of principal is expected and full recovery of interest and fees is not expected or which are overdue for 180 days or more are transferred on a case-by-case basis to the Specialised Loans Group for specialised remedial management and, where appropriate, write off as approved by the board.

Retail: Retail loans are written off in the event of a compromise settlement agreed between the Group and the customer.

Market Risk

Market risk is defined as exposure to adverse changes in the market value of portfolios and positions in financial instruments caused by changes in market factors. This can be divided into basic market risk factors such as foreign exchange rates, interest rates, volatilities and equity prices.

Market risk management is designed to mitigate the amount of potential losses on open positions which may arise due to unforeseen changes in market prices/ rates (e.g. foreign exchange rates, interest rates or securities prices). The Group transacts in diverse set of financial instruments, both physical and derivative, that include securities, currencies and equities.

The Group uses appropriate and standard market models for the valuation of its vanilla positions and liquid structured products; and receives regular market information from common market data providers in order to measure and monitor market risk. Policies, procedures and the trading limits are in place to ensure the implementation of market risk oversight of day-to-day operations, in accordance with the Board's defined risk appetite. These are reviewed periodically to ensure that they remain in line with the Group's general market risk philosophy. In addition to its internal policy and procedures, the Group is required to comply with the guidelines and regulations of applicable jurisdictions (e.g. The Central Bank of the UAE, DFSA) it operates in.

The market risk management function is a function independent of business/risk taking activities, and reports to the CRO. All market risk limits are approved by BCIC and delegated through Group Asset Liability Management Committee ("ALCO") to Global Markets and Treasury division ("Treasury"). Any new limits or extensions to existing limits are reviewed and if appropriate, supported by market risk management function before being proposed to the BCIC for approval. This ensures that all limits are approved and delegated in close consultation with market risk management function. All limit breaches are recorded by market risk management function and reported to the CRO, head of Group Treasury and the responsible desk head.

Group Treasury must provide adequate explanation for any limit breaches and the strategy to remedy the breach. All limit breaches and related information are reported to Group ALCO on monthly basis.

The market risk management function monitors limit utilization on a daily basis through a multi-layered limit monitoring system which uses data and reports from the treasury systems.

A limit monitoring report is prepared on a daily basis and the historical utilizations for all limit exposures are presented for periodic management review. This forms a part of the monthly Group ALCO pack which is provided to senior management.

The following is a sample of limit-types monitored by market risk management function on a daily basis:

- Stop loss limit for foreign exchange and interest rate derivatives trading desk.
- Overall PV01 limits for the Interest Rate Derivatives.
- PV01 Limits by time buckets.
- Spread Risk for USD/AED and USD/SAR to control exposure in the pegged currencies.
- Open Position limits for foreign exchange by three currency groups and overall open position limits.
- Option premium limits for buying options.
- Contract limits for exchange traded products such as interest rate futures and bond futures.
- Notional limits for forward rate agreements and Interest rate swaps (IRS) /Currency interest rate swaps (CIRS).
- Greeks (Delta, Gamma and Vega) limits for options trading.
- Value at Risk (VaR) Limits

Foreign exchange risk hedging strategies are used to ensure that positions are always within established limits. The Group has a conservative policy towards foreign exchange risk and has set limits on positions by currency. Foreign exchange risk is measured using position reports showing the net long or short position for currencies, which are monitored on a real-time basis. Foreign exchange risk is actively managed using spot and forward foreign exchange instruments.

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Trading book managed by market risk management

All new products are authorized only if adequate infrastructure has been assured and approved by senior management. Trading risk limits for foreign exchange, securities, interest rate products and derivatives are reviewed annually and approved by relevant authorities. The Group treasury is responsible for managing trading risk exposure within approved trading risk limits. These limits are low in comparison to the balance sheet size. Systems and procedures are in place to monitor and report related exposure on a daily basis.

To measure and monitor the interest rate risk in the trading book, the Group employs PV01 and VaR limits. Contract limits are established for exchange traded products, and notional limits are put in place for IRS/ CIRS. Delta, Gamma and Vega limits are established for options trading.

Interest Rate Risk in the Banking Book

The Group measures, monitors and manages the interest rate risk in its banking book that constitutes repricing risk, yield curve risk, basis risk, and optionality, as appropriate.

Group risk management ensures that data inputs are adequately specified (commensurate with the nature and complexity of the Group's holdings) with regard to rates, maturities, re-pricing, embedded options, and other details to provide a reasonably accurate portrayal of changes in economic value or earnings.

Group risk management also ensures that systems assumptions (used to transform positions into cash flows) are reasonable, properly documented, and stable over time. Material changes to assumptions are documented, justified, and approved by Group ALCO. The primary techniques used for measuring a bank's interest rate risk exposure is through 'Gap Analysis' with a repricing schedule that distributes interest-sensitive assets, liabilities, and off balance sheet positions into "time bands" according to their maturity (if fixed-rate) or time remaining to their next repricing (if floating rate). These schedules generate indicators of the interest rate risk sensitivity of both earnings and economic value to changing interest rates.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating 200 basis point parallel shifts to the yield curve(s), and corresponding and its impact on its Net Interest Income. To measure and manage interest rate risk and its possible impact on Economic Value of the entity, the Group has established limits based on the PV01 (Price Value of a Basis Point). In addition to repricing gap analysis, separate investment and funding strategies are prepared and tested against the PV01 limits prior to execution, for restructuring the balance sheet. The interest rate gaps and sensitivity tests (NII and PV01) are measured on a monthly basis by Group Risk Control, and monitored by Group ALCO.

VaR based risk monitoring

- VaR based risk monitoring

  Market Risk management function has implemented Reuters' KVaR+ system for Value-at-Risk (VaR) calculations, scenario building, and stress testing trading risk.

The VaR is calculated according to the two different methodologies:
1. Historical Simulation
2. Monte-Carlo Simulation

The Monte-Carlo Simulation implemented at Emirates NBD uses a transformed distribution (based on the empirical distribution to preserve the characteristics of the original distribution).

The different VaR combinations which are running on a daily basis in the KVaR+ system are given in the table below:

Methodology	Confidence Level	Holding Period (Horizon)
Historical Simulation	95%	1 day 10 days 180 days (Banking Book)
	99%	1 day 10 days 180 days (Banking Book)
Monte Carlo	95%	1 day 10 days 180 days (Banking Book)
	99%	1 day 10 days 180days (Banking Book)

The KVaR+ system has been configured to highlight the independent impact of every single risk factor that contributes to the total VaR figure. Thus the bank's management is able to disaggregate daily total VaR by the following risk types:

- Interest Rate VaR
- Currency VaR
- Volatility VaR
- Residual VaR

Year end Value at Risk:
- Confidence Level : 99%
- Holding Period : 1 day
- Methodology: Monte Carlo Simulation

Total Value at Risk	2009 AED	2008 AED
As at 31 December	4,439,597	1,785,544
Average	3,762,012	1,725,990
Minimum	1,519,081	101,320
Maximum	7,305,834	4,657,650

Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks.

The Group-wide operational risk policy outlines the approach and the governance structure for the monitoring and managing of operational risks and to ensure compliance with the Basel II requirements. The Group's operational risk framework, as summarized below, is progressively being implemented across all group entities.

As part of the implementation of the Basel II requirements, the Group's risk management process enables identification, assessment, reporting, management and monitoring of the Group's operational risks. Line management has primary responsibility for managing operational risks with the executive committee having overall authority to sanction operational risks and approve operational risk mitigation measures.

The Group has set-up the Group operational risk function within the Group risk to establish the framework and governance structure set out in the operational risk policy. This function develops and implements the methods for the identification, assessment and monitoring of operational risks throughout the Group and provides regular and comprehensive reporting on operational risks to Senior Management. The function supports business and other support units to monitor and manage their individual operational risks. Furthermore, Group operational risk also provides analyses and reports on operational risks to Senior Management and conducts independent oversight and monitoring of risks and mitigating measures.

The governance structure of operational risk is regulated through 'Group Operational Risk and Compliance Committee' (ORCC). The ORCC reviews the Group's operational risks on a periodic basis, and the effectiveness of existing controls to mitigate these risks. The ORCC reports to EXCO and requires Senior Management involvement from every unit and major entity of the Group.

The Group has implemented the following processes to proactively monitor and manage operational risks:

- For the assessment of any operational risk of a new or amended product or process prior to its implementation, the Group established the Control Risk Self Assessment (CRSA) process. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives.

- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analyzing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units, i.e. where these events are encountered. The operation risk management function supports the respective units in the analysis of operational risk events and provides Group-wide reporting on these events.

- IT Security processes ensure confidentiality, integrity and availability of Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Group operational risk function ensures that security processes are integrated with strategic and operational planning processes to secure the organization's mission.

- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy. The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

Liquidity Risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they come due, known as structural funding risk, or because of the inability to convert assets into cash, known as market liquidity risk.

Liquidity risk is managed in a conservative and forward looking manner, employing practices and processes for risk identification as part of the ALCO process and using a number of monitoring methodologies (cash flow mismatch/liquidity gap, liquid asset cushion, funding capacity, funding diversification and deposit concentration).

An independent function within risk is responsible for liquidity measurement, monitoring and control and reports risk exposures directly to the Group's ALCO.

The ALCO, which consists of the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Head of Treasury as well as of the heads of the business units, is the central authority for identifying and managing such risk. The ALCO holds ultimate responsibility for the establishment, review and approval of the Group's banking book interest rate risk policy, guidelines, and limits, approved by the Board. The ALCO holds monthly meetings for a complete review of the Group's market risk positions, including the interest rate risk in its banking book.

The primary measure employed for risk management is using a mismatch analysis between assets and liabilities for different periods with a focus on shorter time frames. These gap reports are based on contractual cash flow at record level, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments.

The Group's ALCO has supporting policies, limits and processes in place to control the flow of funds with its subsidiaries, and overseas operations. The subsidiaries coordinate their capital and wholesale market funding at optimal pricing through Group Treasury, under the oversight and direction of the Group's ALCO.

Liquidity Risk Monitoring:

All funded liquidity risk positions are monitored and evaluated by Group risk to identify mis-matches of future cash inflows and corresponding maturity of liabilities over the short term and by major currencies.

The Group ALCO reviews the funding capacity, and its sensitivity to any key event, based on the judgment of the Group Treasury function that is responsible for maintaining diversified funding sources within Capital and Money Markets.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. The Group's approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times. The Group ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis;
- Varied funding programs; and
- Investor diversification.

Liquidity Risk Mitigation

The Group ALCO, in conjunction with Group Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.
The Group ALCO, in line with the best practices,

recognises that users and providers of liquidity as a resource should be incentivized in an equitable and transparent manner. This is achieved through the Funds Transfer Pricing (FTP) system which is aligned to charge/compensate for liquidity of the underlying assets or structural nature of underlying liabilities. These processes are embedded into product pricing decisions and performance measurement systems. Group risk function in conjunction with Treasury and finance function manages and calibrates the FTP system for the Group, in the light of business strategies or market movements.

Reputation Risk

Reputation Risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. Reputation risk also includes the threat to the brand value of a financial institution.

Reputation risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. Therefore, the Group has established and implemented robust processes and controls to ensure a positive perception of the Group.

Regulatory/Compliance Risk

Regulatory/Compliance Risk is the risk of sanctions and/or financial losses due to the failure to comply with applicable laws, regulations or guidelines.

This risk type is considered and managed as part of operational risk. However, the Group has an independent compliance function within risk management, with necessary mandate and authority to enforce compliance on a Group wide basis. This includes compliance within various jurisdictions where the Group operates and active monitoring and reporting on Anti Money Laundering (AML) issues. The Group has also a well embedded "Know-Your-Customer" (KYC) policy at the operational level.

Concentration Risk

Concentration Risk is the risk related to any single exposure or group of exposures with the potential to produce losses large enough to threaten a bank's financial health or ability to maintain its core operations.

The Group recognizes the importance of concentration risk and strictly adheres to the individual and aggregate regulatory set percentage limits for the Group's capital base. Corporate credit follows concentration risk in areas like country, industry and individual level concentration. Retail credit follows concentration level by employer, nationality and income segments. There are no automatic triggers for policy changes or early actions, but these concentration indicators are closely tracked and manually monitored on quarterly basis to ensure that the portfolio is free of major concentration risks.

At present there is no specific capital requirement for concentration risk.

Within the new economic capital framework, concentration risk will be considered implicitly. The Group intends to include single name as well as sector concentrations within the credit portfolio model. Therefore, this risk type will not be treated as a stand-alone risk and, hence, it is not quantified as a specific capital charge.

Business Risk

Business Risk refers to the risk of loss due to unexpected changes in the recent and / or future business volumes and margins, caused by changes in the competitive environment, general business cycle effects and macro-economic disruptions.

Business Risk includes the Earnings at Risk perspective related to the bank's earnings and profitability, the Reputation Risk perspective and the Indemnity Risk perspective.

Emirates NBD employs, at present, a model to quantify the potential impact resulting from Business Risk.

Risk management framework and processes at Emirates Islamic Bank (EIB)

Risk Management at EIB

Basic philosophy, methodologies and traditional areas of Risk Management are aligned with parent company's commercial banking risk models, but unique risk challenges of Islamic banks as well as areas like Sharia non-compliance risk are considered within ambit of EIB's risk management processes.

There is an independent risk management unit within EIB which works in conjunction with Group risk.

Key features of risk management in EIB are summarized below:

- Independent Risk Management ownership at EIB level.
- Dotted line relationships with Group RISK.
- Group RISK's tools / processes being utilized and acclimatized for use by EIB.

The following work streams summarize the coordination with Group RISK of Emirates NBD:

- EIB specific Risk Strategy Development and Appetite Definition
- Corporate Risk Governance model refinement
- Market Risk Framework – EIB backs out its Trading exposures to Group Treasury, and therefore the market risk control is performed centrally. Investment Book exposure is maintained independently, with periodic reviews from Group Risk Management functions.
- Operational Risk Framework is managed locally by EIB Operational Risk Committee, and benefits from periodic support from Group Operational Risk on policies and self assessment methodologies.
- Group Liquidity Risk policy adoption, in line with the Group ALCO defined framework.
- Compliance and AML Framework, in line with Group Guidelines and policies

- Basel II Compliance: Pillar 1 - Basis of establishing risk framework. Presently, EIB is 'standardized approach' compliant, and is working towards IRB methodology through the use of Credit Rating Models built at Group RISK.
- Inputs into Group Wide Internal Capital Adequacy Assessment Process (ICAAP): Pillar 2.
- Inputs into Group Wide Stress Testing.

Respective risk management processes are executed through regular management interaction at forums below:

- EIB Board Credit and Investment Committee (EIB BCIC): includes three senior executives of the Group, who are also directors on the EIB Board.
- EIB Asset Liability Management Committee (EIB ALCO): Led by Group RISK. Members include two senior executives of Group TRY and three senior executives of Group RISK.
- EIB EXCO: Includes observers from Emirates NBD IT, Group HR as well as Group Internal Audit.
- EIB Board Audit Sub-Committee: Includes director(s) that are Emirates NBD's executive(s).
- EIB Internal Audit: Reports to Emirates NBD's internal audit function.
- Treasury: EIB's Money Market and Trading requirements are centralized with Group Treasury.
- IT Security: EIB falls within security ambit of Emirates NBD.
- Recovery: EIB uses recoveries department of Emirates NBD to follow-up recovery of legacy portfolio as well as some new loss accounts on corporate side.

Capital management and stress testing

The Group adheres to the regulations set out by the Central Bank of the United Arab Emirates which has reconfirmed the requirements in relation to Basel II / Pillar 2 in its circular 27/2009, dated 17 November, 2009.

According to the guidelines issued by the Central Bank of the United Arab Emirates, all banks have to prepare a forward-looking capital adequacy assessment and to submit a comprehensive report annually before or by 1 March, 2010. The Group has proactively complied with the regulatory expectations on Capital Management since 2007.

The implemented internal capital adequacy assessment process is based on economic capital and defines adequacy as balance of capital supply, in form of available financial resources, and capital demand, in form of cushion against unexpected losses from credit, market, operational, business risks and interest rate risk / banking book.

In brief,

- Credit Risk - Monte-Carlo simulation based Portfolio Model for Credit Value at Risk,
- Market Risk - Market Value at Risk complemented by Basel II / Standardized Approach,
- Operational Risk - Basel II / Standardized Approach,
- Business Risk - volatility driven parametric Value at Risk, and
- Interest Rate Risk / Banking Book - Net-Interest Income volatility model (complementary to PV01).

The Credit Risk quantification model is predominately based on Basel II compliant Internal Ratings and incorporates the relevant correlations and inherent concentration levels. The aggregated capital demand across risk types is the result of a Gaussian Copula model. Recognizing the importance of Islamic Finance, the models employed have also been built to address the specific parameters of such portfolios.

The forward-looking Internal capital adequacy assessment process is based on base-case assumptions, reflecting the Group's current financial budget and business expectations under business as usual conditions. In order to determine the impact of adverse conditions, the Group employs an Integrated Stress Testing Framework.

The application of stress testing in this context is two-fold. Firstly, it is applied to provide a comprehensive analysis on the impact in terms of balance sheet structure, financial performance, capitalization levels and funding profile. In this case, there is no specific capital charge due to stress testing. Secondly, the results are used to assess the outcome and stability of economic capital models.

In summary, the actual assessment of capital adequacy in terms of economic capital is carried out quarterly and the corresponding results, for base-case and under stressed conditions, are monitored against the latest version of the integrated risk forecast and Group's risk appetite as set out in Group's risk strategy. A key benefit of the quarterly analysis and reporting is the derivation of business and risk management decisions.

For the 2010-2011 planning cycle, the Group continues to further refine the model parameterization and quantification approaches, and to further integrate the economic capital into the overall performance measurement and management framework.

Implementation of Basel II guidelines

Adoption of foundation / advanced IRB

The Group is compliant with Standardized Approach with effect from 31st December 2007.

Development on Advanced IRB Approaches is a multi track initiative, within the guidelines of the Central Bank and the Group is planning to complete migration to advanced approach by January 2011.

Basel II Standardized Approach – Credit risk & credit risk mitigation

Under Standardised Approach, all credit exposures are assessed according to the counterparty classifications and against the ECAI ratings as advised under national discretion (November 2009):

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

- Claims on sovereign and central banks in the GCC are risk weighted at 0%.
- Domestic currency claims on a non commercial GCC Public Sector Enterprise (PSE) are treated as claims on their sovereigns if their central bank or monetary authority treats them as such. Foreign currency claims on such a PSE are risk weighted one grade less favorable than its sovereign i.e. 20% risk weight. Claims on other foreign PSEs are risk weighted one grade less favorable than its sovereign.

- Claims on commercial companies owned by a GCC sovereign or PSEs that operate as commercial organizations are treated as claims on a corporate and risk weighted in accordance with ratings from acceptable ECAIs.

- ECAI ratings are also used to determine the capital requirements against exposures to banks and financial institutions. The group uses option 2 (one of alternative risk weight and ECAI ratings matrices as prescribed in the Basel II accord) for determining the capital requirements in line with the supervisory discretion adopted by the UAE Central Bank.

- Claims on corporate entities are risk weighted at prescribed risk weights applicable per the latest ECAI rating of the counterparty. Claims on unrated corporate entities are risk weighted at 100%.

- Consumer banking exposure is classified into 'Qualified Residential Mortgage', 'Qualified regulatory retail portfolio' and 'Others'; per the CBUAE Basel II guidelines and risk weighted at 35%, 75% and 100% respectively

- All other assets are classified between 'assets under higher risk categories' and 'others'; and risk weighted at prescribed risk weights.

For standardised capital adequacy calculations, the following rules are applied consistently for determining the appropriate ECAI ratings:

- Where more ECAI ratings of two acceptable rating agencies are available, the lower (worse) of the two is considered
- Where the ECAI ratings are split evenly between all four rating agencies, the more conservative ratings are considered.
- Acceptable ECAI agencies are Moody's, S&P, Fitch and Capital Intelligence.

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

31 DECEMBER 2009

Name of Subsidiary/ Associate	Country of Incorporation	% Ownership	Description of business	Description of Accounting Treatment (Consolidation/ Investment Accounting)	Description of Regulatory Capital Treatment (Consolidation/ Deduction from capital/ Neither)
Buzz Contact Centre Solutions LLC	Dubai, U.A.E.	100	Call centre management services	Consolidation	Consolidation
Diners Club (UAE) LLC	Dubai, U.A.E.	100	International charge card	Consolidation	Consolidation
E.T.F.S. LLC	Dubai, U.A.E.	100	Trade finance services	Consolidation	Consolidation
Emirates Financial Services PSC	Dubai, U.A.E.	100	Funds management	Consolidation	Consolidation
Emirates Funds Managers (Jersey) Limited	Jersey, U.K.	100	Asset management	Consolidation	Consolidation
Emirates NBD Properties LLC	Dubai, U.A.E.	100	Real estate	Consolidation	Consolidation
Emirates NBD Securities LLC	Dubai, U.A.E.	100	Brokerage services	Consolidation	Consolidation
Emirates Loyalty Company LLC	Dubai, U.A.E.	100	Customer loyalty and smart card services	Consolidation	Consolidation
Network International LLC	Dubai, U.A.E.	100	Card services	Consolidation	Consolidation
Emirates Investment Services Limited (registered in Dubai International Financial Centre)	Dubai, U.A.E.	100	Asset management	Consolidation	Consolidation
Emirates Islamic Bank PJSC	Dubai, U.A.E.	99.8	Islamic Banking	Consolidation	Consolidation
Dubai Bank Limited (dormant)	Dubai, U.A.E.	97	Banking	Consolidation	Consolidation
Emirates Money Consumer Finance LLC	Dubai, U.A.E.	100	Consumer Finance	Consolidation	Consolidation
Emirates Funds LLC	Dubai, U.A.E.	100	Asset management	Consolidation	Consolidation
Emirates NBD Capital (formerly NBD Investment Bank registered in Dubai International Financial Centre)	Dubai, U.A.E.	100	Asset management	Consolidation	Consolidation
National Bank of Dubai Trust Company (Jersey) Limited	Jersey, U.K.	100	Trust administration services	Consolidation	Consolidation
Associate companies of Emirates NBD PJSC					
Union Properties PJSC	Dubai, U.A.E.	47.6	Real estate	Equity accounting	Neither - Included in gross credit exposure at carrying value
National General Insurance Company PSC	Dubai, U.A.E.	36.7	General and life insurance	Equity accounting	Neither - Included in gross credit exposure at carrying value

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENTS (Continued)

31 DECEMBER 2008

Name of Subsidiary/ Associate	Country of Incorporation	% Ownership	Description of business	Description of Accounting Treatment (Consolidation/ Investment Accounting)	Description of Regulatory Capital Treatment (Consolidation/ Deduction from capital/ Neither)
Emirates Bank International PJSC	Dubai, U.A.E.	100	Banking	Consolidation	Consolidation
National Bank of Dubai PJSC	Dubai, U.A.E.	100	Banking	Consolidation	Consolidation
Subsidiaries of Emirates Bank International PJSC					
Buzz Contact Centre Solutions LLC	Dubai, U.A.E.	100	Call centre management services	Consolidation	Consolidation
Diners Club (UAE) LLC	Dubai, U.A.E.	100	International charge card	Consolidation	Consolidation
E.T.F.S. LLC	Dubai, U.A.E.	100	Trade finance services	Consolidation	Consolidation
Emirates Financial Services PSC	Dubai, U.A.E.	100	Funds management	Consolidation	Consolidation
Emirates Funds Managers (Jersey) Limited	Jersey, U.K.	100	Asset management	Consolidation	Consolidation
Emirates International Securities LLC	Dubai, U.A.E.	100	Real estate	Consolidation	Consolidation
Emirates Loyalty Company LLC	Dubai, U.A.E.	100	Customer loyalty and smart card services	Consolidation	Consolidation
Network International LLC	Dubai, U.A.E.	100	Card services	Consolidation	Consolidation
Emirates Investment Services Limited (registered in Dubai International Financial Centre)	Dubai, U.A.E.	100	Asset management	Consolidation	Consolidation
Emirates Islamic Bank PJSC	Dubai, U.A.E.	99.8	Islamic Banking	Consolidation	Consolidation
Dubai Bank Limited (dormant)	Dubai, U.A.E.	97	Banking	Consolidation	Consolidation
Emirates Money Consumer Finance LLC	Dubai, U.A.E.	100	Consumer Finance	Consolidation	Consolidation
Emirates Funds LLC	Dubai, U.A.E.	100	Asset management	Consolidation	Consolidation
Subsidiaries of National Bank of Dubai PJSC					
NBD Investment Bank Limited (registered in Dubai International Financial Centre)	Dubai, U.A.E.	100	Investment Banking	Consolidation	Consolidation
National Bank of Dubai Trust Company (Jersey) Limited	Jersey, U.K.	100	Trust administration services	Consolidation	Consolidation
NBD Securities LLC	Dubai, U.A.E.	100	Brokerage services	Consolidation	Consolidation
NBD Properties LLC	Dubai, U.A.E.	100	Real estate	Consolidation	Consolidation
Al Watani Al Islami PJSC	Dubai, U.A.E.	100	Islamic Financing	Consolidation	Consolidation

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENTS (Continued)

31 DECEMBER 2008

Name of Subsidiary/ Associate	Country of Incorporation	% Ownership	Description of business	Description of Accounting Treatment (Consolidation/ Investment Accounting)	Description of Regulatory Capital Treatment (Consolidation/ Deduction from capital/ Neither)
Associate companies of Emirates Bank International PJSC					
Union Properties PJSC	Dubai, U.A.E.	47.6	Real estate	Equity accounting	Neither - Included in gross credit exposure at carrying value
National General Insurance Company PSC	Dubai, U.A.E.	36.7	General and life insurance	Equity accounting	Neither - Included in gross credit exposure at carrying value

CONSOLIDATED CAPITAL STRUCTURE

	2009 AED 000	2008 AED 000
Tier 1 Capital		
Paid up share capital / common stock	17,827,899	17,322,647
Reserves		
Statutory reserve	1,964,205	1,629,205
Special reserve	-	-
General reserve	8,859,342	7,471,272
Minority interests in the equity of subsidiaries	94,145	96,776
Innovative capital instruments	-	-
Other capital instruments (Refer Note)	4,000,000	-
Surplus capital from insurance companies	-	-
	32,745,591	**26,519,900**
Less: Deductions for regulatory calculation	-	(282,671)
Less: Deductions from Tier 1 capital	(6,091,646)	(6,139,331)
Tier 1 Capital (A)	**26,653,945**	**20,097,898**
Tier 2 Capital (B)	**15,178,143**	**4,925,895**
Tier 3 Capital (C)	-	-
Total eligible capital after deductions (A+B+C)	**41,832,088**	**25,023,793**

Note

In June 2009, the Group issued regulatory tier I capital notes amounting to AED 4 billion. The notes are perpetual, subordinated, unsecured and have been issued at a fixed interest rate for the first five years and on a floating rate basis thereafter. The bank can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and the event is not considered an event of default. The notes carry no maturity date and have been classified under equity.

CAPITAL ADEQUACY (STANDARDISED APPROACH)

	2009		2008	
	Capital Charge (AED '000s)	Capital Ratio	Capital Charge (AED '000s)	Capital Ratio
Capital Requirements				
Credit Risk	20,758,635		22,542,788	
Market Risk	317,082		523,635	
Operational Risk	1,314,066		1,059,489	
Total Capital Requirements (Refer Note)	**22,389,783**		**24,125,912**	
Capital Ratio				
Total for Top consolidated Group		**18.68%**		**10.37%**
Tier 1 ratio only for top consolidated group		**11.90%**		**8.33%**
Total for each significant bank subsidiary (Emirates Islamic Bank)		**15.72%**		**11.07%**

Note

Risk weighted assets as at 31.12.2009 AED 223,898 million and as at 31.12.2008 AED 241,259 million

GROSS CREDIT EXPOSURE BY CURRENCY

31 DECEMBER 2009

AED '000s

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
Foreign Currency	38,475,865	8,497,819	15,558,918	**62,532,602**	1,115,188	3,843,630	8,384,763	**13,343,581**	**75,876,183**
AED	162,640,466	2,091,217	49,124,891	**213,856,574**	8,977,295	483,589	24,624,383	**34,085,267**	**247,941,841**
Total	**201,116,331**	**10,589,036**	**64,683,809**	**276,389,176**	**10,092,483**	**4,327,219**	**33,009,146**	**47,428,848**	**323,818,024**

31 DECEMBER 2008

AED '000s

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
Foreign Currency	42,845,032	10,446,301	19,810,463	**73,101,796**	2,902,487	5,938,351	16,550,195	**25,391,033**	**98,492,829**
AED	149,099,278	2,248,012	45,966,652	**197,313,942**	21,224,459	2,263,845	32,509,124	**55,997,428**	**253,311,370**
Total	**191,944,310**	**12,694,313**	**65,777,115**	**270,415,738**	**24,126,946**	**8,202,196**	**49,059,319**	**81,388,461**	**351,804,199**

GROSS CREDIT EXPOSURE BY GEOGRAPHY

31 DECEMBER 2009

AED '000s

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
United Arab Emirates	191,390,289	3,634,212	51,512,698	**246,537,199**	10,092,483	1,982,520	30,672,537	**42,747,540**	**289,284,739**
GCC excluding UAE	4,899,097	1,112,375	4,139,669	**10,151,141**	-	103,206	688,725	**791,931**	**10,943,072**
Arab League (excluding GCC)	667,558	130,392	678,832	**1,476,782**	-	274	15,876	**16,150**	**1,492,932**
Asia	1,224,808	409,379	896,501	**2,530,688**	-	24	1,085,628	**1,085,652**	**3,616,340**
Africa	58,498	-	27,789	**86,287**	-	-	90,400	**90,400**	**176,687**
North America	29,680	3,429,812	2,099,030	**5,558,522**	-	287,239	15,105	**302,344**	**5,860,866**
South America	-	-	-	**-**	-	-	-	**-**	**-**
Caribbean	-	-	-	**-**	-	-	-	**-**	**-**
Europe	1,806,990	1,665,816	5,084,352	**8,557,158**	-	1,953,937	410,984	**2,364,921**	**10,922,079**
Australia	1,545	154,460	3,592	**159,597**	-	19	201	**220**	**159,817**
Others	1,037,866	52,590	241,346	**1,331,802**	-	-	29,690	**29,690**	**1,361,492**
Total	**201,116,331**	**10,589,036**	**64,683,809**	**276,389,176**	**10,092,483**	**4,327,219**	**33,009,146**	**47,428,848**	**323,818,024**

31 DECEMBER 2008

AED '000s

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
United Arab Emirates	180,838,917	4,946,809	45,604,604	**231,390,330**	24,126,946	4,105,729	43,685,311	**71,917,986**	**303,308,316**
GCC excluding UAE	6,751,015	1,399,156	7,078,274	**15,228,445**	-	228,730	1,389,650	**1,618,380**	**16,846,825**
Arab League (excluding GCC)	109,355	-	424,241	**533,596**	-	22,554	183,531	**206,085**	**739,681**
Asia	1,893,675	1,289,445	1,204,595	**4,387,715**	-	9,469	2,256,825	**2,266,294**	**6,654,009**
Africa	14,618	-	19,828	**34,446**	-	-	55,502	**55,502**	**89,948**
North America	9,691	2,660,668	3,990,577	**6,660,936**	-	712,520	129,535	**842,055**	**7,502,991**
South America	4,809	-		**4,809**	-	-	6,262	**6,262**	**11,071**
Caribbean	-	-		**-**	-	-	-	**-**	**-**
Europe	1,857,637	2,231,574	6,257,725	**10,346,936**	-	3,123,194	827,364	**3,950,558**	**14,297,494**
Australia	60	166,661	7,745	**174,466**	-	-	6,250	**6,250**	**180,716**
Others	464,533	-	1,189,526	**1,654,059**	-	-	519,089	**519,089**	**2,173,148**
Total	**191,944,310**	**12,694,313**	**65,777,115**	**270,415,738**	**24,126,946**	**8,202,196**	**49,059,319**	**81,388,461**	**351,804,199**

GROSS CREDIT EXPOSURE BY ECONOMIC ACTIVITY

31 DECEMBER 2009

AED '000s

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
Agriculture, fishing & related activities	93,637	-	1,503	**95,140**	-	-	75,067	**75,067**	**170,207**
Crude, oil gas, mining & quarrying	343,671	-	39,234	**382,905**	4,320	-	65	**4,385**	**387,290**
Manufacturing	8,542,742	148,292	1,006,011	**9,697,045**	357,883	-	827,292	**1,185,175**	**10,882,220**
Electricity & Water	-	-	-	**-**	27,687	-	417,843	**445,530**	**445,530**
Construction	7,391,491	240,949	2,008,971	**9,641,411**	4,374,938	-	2,861,379	**7,236,317**	**16,877,728**
Trade	8,066,477	-	806,986	**8,873,463**	627,035	-	1,359,454	**1,986,489**	**10,859,952**
Transport, Storage & Communication	6,262,372	678,355	695,078	**7,635,805**	924,684	-	1,389,499	**2,314,183**	**9,949,988**
Financial Institutions	26,497,494	5,069,931	15,681,890	**47,249,315**	75,000	3,816,490	6,839,257	**10,730,747**	**57,980,062**
Real Estate	27,056,045	504,246	11,678,764	**39,239,055**	40,390	10,639	1,665,044	**1,716,073**	**40,955,128**
Services	22,274,736	63,008	2,287,046	**24,624,790**	747,905	-	3,832,995	**4,580,900**	**29,205,690**
Government	49,021,516	2,878,284	160,930	**52,060,730**	192,625	-	142,942	**335,567**	**52,396,297**
Retail/ Consumer Banking	24,497,978	-	656,319	**25,154,297**	-	-	925,555	**925,555**	**26,079,852**
Personal - corporate	11,785,532	-	1,575,740	**13,361,272**	-	-	-	**-**	**13,361,272**
All Others	8,278,319	1,005,971	28,085,337	**37,369,627**	2,720,016	500,090	12,672,754	**15,892,860**	**53,262,487**
Add: Grossing up of interest in suspense	1,004,321	-	-	**1,004,321**	-	-	-	**-**	**1,004,321**
Total	**201,116,331**	**10,589,036**	**64,683,809**	**276,389,176**	**10,092,483**	**4,327,219**	**33,009,146**	**47,428,848**	**323,818,024**

Note – 'All Others' include cash & deposits with Central Bank, investment properties, property and equipment and other assets.

GROSS CREDIT EXPOSURE BY ECONOMIC ACTIVITY (Continued)

31 DECEMBER 2008

AED '000s

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
Agriculture, fishing & related activities	164,575	-	1,698	**166,273**	-	-	36,393	**36,393**	**202,666**
Crude, oil gas, mining & quarrying	397,739	-	382	**398,121**	845	14,355	504,886	**520,086**	**918,207**
Manufacturing	10,828,330	410,537	301,611	**11,540,478**	166,049	118,213	2,407,264	**2,691,526**	**14,232,004**
Electricity & Water	-	-	-	**-**	42,533	-	839,623	**882,156**	**882,156**
Construction	8,217,445	1,677,917	993,662	**10,889,024**	3,162,918	31,681	7,188,526	**10,383,125**	**21,272,149**
Trade	10,992,032	-	1,197,751	**12,189,783**	1,586,445	145,448	4,266,945	**5,998,838**	**18,188,621**
Transport, Storage & Communication	7,313,519	378,355	1,079,954	**8,771,828**	1,213,157	206,085	5,223,535	**6,642,777**	**15,414,605**
Financial Institutions	28,922,448	8,354,060	13,738,029	**51,014,537**	4,098,120	6,884,116	11,465,717	**22,447,953**	**73,462,490**
Real Estate	24,367,923	-	9,698,520	**34,066,443**	-	-	-	**-**	**34,066,443**
Services	18,210,070	-	1,743,606	**19,953,676**	1,995,025	43,820	3,861,943	**5,900,788**	**25,854,464**
Government	36,175,267	1,809,274	1,306,846	**39,291,387**	58,300	-	3,537	**61,837**	**39,353,224**
Retail/ Consumer Banking	25,759,725	-	681,558	**26,441,283**	6,038,922	77,354	287,556	**6,403,832**	**32,845,115**
Personal - corporate	14,341,194	-	1,377,214	**15,718,408**	-	-	-	**-**	**15,718,408**
All Others	5,428,992	64,170	33,656,284	**39,149,446**	5,764,632	681,124	12,973,394	**19,419,150**	**58,568,596**
Add: Grossing up of interest in suspense	825,051	-	-	**825,051**	-	-	-	**-**	**825,051**
Total	**191,944,310**	**12,694,313**	**65,777,115**	**270,415,738**	**24,126,946**	**8,202,196**	**49,059,319**	**81,388,461**	**351,804,199**

Note – 'All Others' include cash & deposits with Central Bank, investment properties, property and equipment and other assets.

GROSS CREDIT EXPOSURE BY RESIDUAL MATURITY

31 DECEMBER 2009

AED '000s

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
Less than 3 months	87,980,845	363,715	36,782,813	**125,127,373**	3,414,512	-	7,129,766	**10,544,278**	**135,671,651**
3 months to 1 year	37,257,644	904,343	8,946,693	**47,108,680**	4,465,285	2,903,524	8,719,209	**16,088,019**	**63,196,699**
1 year to 5 years	55,619,021	6,232,511	9,558,958	**71,410,490**	2,212,686	867,226	15,861,505	**18,941,417**	**90,351,907**
Over 5 years	13,845,179	3,088,467	9,050,379	**25,984,025**	-	556,469	1,298,666	**1,855,135**	**27,839,160**
Add: Grossing up of interest in suspense & provisions	6,413,642	-	344,966	**6,758,608**	-	-	-	**-**	**6,758,608**
Total	**201,116,331**	**10,589,036**	**64,683,809**	**276,389,176**	**10,092,483**	**4,327,219**	**33,009,146**	**47,428,848**	**323,818,024**

31 DECEMBER 2008

AED '000s

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
Less than 3 months	86,449,715	236,686	39,305,191	**125,991,592**	5,913,009	2,230,706	17,639,225	**25,782,940**	**151,774,532**
3 months to 1 year	16,752,683	1,351,322	6,721,188	**24,825,193**	5,121,243	2,260,984	7,607,212	**14,989,439**	**39,814,632**
1 year to 5 years	48,515,588	8,020,983	11,967,903	**68,504,474**	13,092,694	2,604,003	23,632,232	**39,328,929**	**107,833,403**
Over 5 years	36,288,803	3,085,322	7,782,833	**47,156,958**	-	1,106,503	180,650	**1,287,153**	**48,444,111**
Add: Grossing up of interest in suspense & provisions	3,937,521	-	-	**3,937,521**	-	-	-	**-**	**3,937,521**
Total	**191,944,310**	**12,694,313**	**65,777,115**	**270,415,738**	**24,126,946**	**8,202,196**	**49,059,319**	**81,388,461**	**351,804,199**

IMPAIRED LOANS BY ECONOMIC ACTIVITY

31 DECEMBER 2009

AED '000s

	Overdue (Gross of Interest in Suspense/ Provisions)			Provisions		Adjustments			
	Less than 90 days	90 days and above	Total	Specific	General	Write-offs	Write-backs	Interest in Suspense	Total Impaired Assets
Agriculture, fishing & related activities	-	-	-	-	-	-	-	-	**-**
Crude, oil gas, mining & quarrying	-	-	-	-	-	-	-	-	**-**
Manufacturing	-	122,500	122,500	59,058	-	-	632	31,893	**31,549**
Electricity & Water	-	-	-	-	-	-	-	-	**-**
Construction	-	965,395	965,395	564,623	-	-	16,640	13,059	**387,713**
Trade	-	412,110	412,110	200,186	-	-	525	81,564	**130,360**
Transport, Storage & Communication	-	1,761	1,761	401	-	-	-	822	**538**
Financial Institutions	-	789,279	789,279	673,561	-	373,311	-	-	**115,718**
Real Estate	-	44,444	44,444	12,452	-	-	-	1,579	**30,413**
Services	-	139,594	139,594	35,770	-	-		6,746	**97,078**
Government	-	-	-	-	-	-	-	-	**-**
Retail/ Consumer Banking	-	3,657,930	3,657,930	2,194,709	-	-	152,617	868,422	**594,799**
All Others	-	19,716	19,716	4,688	-	-	-	236	**14,792**
Total	-	**6,152,729**	**6,152,729**	**3,745,448**	**1,663,873**	**373,311**	**170,414**	**1,004,321**	**1,402,960**

IMPAIRED LOANS BY ECONOMIC ACTIVITY (Continued)

31 DECEMBER 2008

AED '000s

	Overdue (Gross of Interest in Suspense/ Provisions)			Provisions		Adjustments			
	Less than 90 days	90 days and above	Total	Specific	General	Write-offs	Write-backs	Interest in Suspense	Total Impaired Assets
Agriculture, fishing & related activities	-	-	-	-	-	-	-	-	**-**
Crude, oil gas, mining & quarrying	-	3,362	3,362	2,916	-	-	-	-	**446**
Manufacturing	-	67,386	67,386	6,192	-	22,175	294	61,230	**(36)**
Electricity & Water	-	-	-	-	-	-	-	-	**-**
Construction	-	39,030	39,030	4,621	-	-		28,102	**6,307**
Trade	-	453,052	453,052	226,709	-	6,491	23,682	156,591	**69,752**
Transport, Storage & Communication	-	1,970	1,970	418	-	-	-	1,577	**(25)**
Financial Institutions	-	1,315,931	1,315,931	980,840	-	41,872		-	**335,091**
Real Estate	-	-	-	-	-	-		-	**-**
Services	-	14,580	14,580	10,253	-	-	-	12,952	**(8625)**
Government	-	-	-	-	-	-	-	-	**-**
Retail/ Consumer Banking	-	1,998,208	1,998,208	1,294,683	-	5,420	94,857	564,145	**139,380**
All Others	-	16,527	16,527	14,965	-	108	2,735	454	**1,108**
Total	**-**	**3,910,046**	**3,910,046**	**2,541,597**	**570,873**	**76,066**	**121,568**	**825,051**	**543,398**

IMPAIRED LOANS BY GEOGRAPHY

31 DECEMBER 2009

AED '000s

	Overdue (Gross of Interest in Suspense/ Provisions)			Provisions		Adjustments			
	Less than 90 days	90 days and above	Total	Specific	General	Write-offs	Write-backs	Interest in Suspense	Total Impaired Assets
United Arab Emirates	-	5,266,496	5,266,496	3,364,436	-	-	170,414	992,202	**909,858**
GCC excluding UAE	-	882,119	882,119	377,120	-	-	-	12,119	**492,880**
Arab League (excluding GCC)	-	3,992	3,992	3,892	-	-	-	-	**100**
Asia	-	122	122	-	-	-	-	-	**122**
Africa	-	-	-	-	-	-	-	-	**-**
North America	-	-	-	-	-	117,900	-	-	**-**
South America	-	-	-	-	-	-	-	-	**-**
Caribbean	-	-	-	-	-	-	-	-	**-**
Europe	-	-	-	-	-	255,411	-	-	**-**
Australia	-	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	-	-	-	**-**
Total	**-**	**6,152,729**	**6,152,729**	**3,745,448**	**1,663,873**	**373,311**	**170,414**	**1,004,321**	**1,402,960**

IMPAIRED LOANS BY GEOGRAPHY (Continued)

31 DECEMBER 2008

AED '000s

	Overdue (Gross of Interest in Suspense/ Provisions)			Provisions		Adjustments			
	Less than 90 days	90 days and above	Total	Specific	General	Write-offs	Write-backs	Interest in Suspense	Total Impaired Assets
United Arab Emirates	-	2,593,820	2,593,820	1,560,463	-	34,194	93,568	825,051	**208,306**
GCC excluding UAE	-	295	295	295	-	-	28,000	-	**-**
Arab League (excluding GCC)	-	-	-	-	-	-	-	-	**-**
Asia	-	-	-	-	-	-	-	-	**-**
Africa	-	-	-	-	-	-	-	-	**-**
North America	-	480,041	480,041	357,802	-	41,872	-	-	**122,239**
South America	-	-	-	-	-	-	-	-	**-**
Caribbean	-	-	-	-	-	-	-	-	**-**
Europe	-	835,890	835,890	623,037	-	-	-	-	**212,853**
Australia	-	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	-	-	-	**-**
Total	**-**	**3,910,046**	**3,910,046**	**2,541,597**	**570,873**	**76,066**	**121,568**	**825,051**	**543,398**

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED LOANS

	2009 AED 000	2008 AED 000
Balance of provision for impaired loans as at 1 January	3,112,470	1,814,056
Add: Charge for the year		
Special provision	1,747,576	1,284,655
General provision	1,093,000	211,333
Less: Write-off of impaired loans to income statement	(373,311)	(76,006)
Less: Recovery of loans previously written off/ write back of loan loss provisions	(170,414)	(121,568)
Balance of provision for impaired loans as at 31 December	**5,409,321**	**3,112,470**

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH

31 DECEMBER 2009

AED '000s

	On Balance Sheet Gross Outstanding	Off Balance Sheet Net Exposure after Credit Conversion Factors (CCF)	Exposure Before CRM	Credit Risk Mitigation CRM	Credit Risk Mitigation After CRM	Risk Weighted Assets
Claims on sovereigns	68,908,560	32,752	68,941,312	-	68,941,312	**51,162**
Claims on non-central government public sector entities	4,321,322	304,638	4,625,960	-	4,625,960	**14,627**
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	16,857,186	6,811,985	23,669,171	-	23,669,171	**11,347,742**
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	133,951,862	26,125,956	160,077,818	5,757,370	154,320,448	**154,162,537**
Claims included in the regulatory retail portfolio	19,631,003	476,553	20,107,556	115,839	19,991,717	**15,992,708**
Claims secured by residential property	6,515,720	-	6,515,720	-	6,515,720	**3,965,934**
Claims secured by commercial real estate	3,446,601	-	3,446,601	-	3,446,601	**3,446,601**
Past due loans	6,152,729	-	6,152,729	-	6,152,729	**1,402,960**
Higher-risk categories	1,003,506	-	1,003,506	-	1,003,506	**1,505,259**
Other assets	15,573,143	-	15,573,143	-	15,573,143	**12,862,002**
Claims on securitised assets	27,544	-	27,544	-	27,544	**13,772**
Credit derivatives (Banks selling protection)	-	3,584,481	3,584,481	-	3,584,481	**2,821,048**
Total	**276,389,176**	**37,336,365**	**313,725,541**	**5,873,209**	**307,852,332**	**207,586,352**

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH (Continued)

31 DECEMBER 2008

AED '000s

	On Balance Sheet Gross Outstanding	Off Balance Sheet Net Exposure after Credit Conversion Factors (CCF)	Exposure Before CRM	Credit Risk Mitigation CRM	Credit Risk Mitigation After CRM	Risk Weighted Assets
Claims on sovereigns	53,216,288	3,287	53,219,575	-	53,219,575	176,999
Claims on non-central government public sector entities	14,672,631	838,060	15,510,691	-	15,510,691	10,417,502
Claims on multi lateral development banks	161,881	-	161,881	-	161,881	-
Claims on banks	13,641,801	13,338,350	26,980,151	-	26,980,151	7,130,117
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	127,643,402	38,213,344	165,856,746	7,111,388	158,745,358	157,856,269
Claims included in the regulatory retail portfolio	25,086,414	310,648	25,397,062	2,059,771	23,337,291	18,414,389
Claims secured by residential property	5,266,410	-	5,266,410	-	5,266,410	2,638,454
Claims secured by commercial real estate	8,846,569	-	8,846,569	-	8,846,569	8,846,569
Past due loans	3,910,046	-	3,910,046	-	3,910,046	543,398
Higher-risk categories	1,022,122	-	1,022,122	-	1,022,122	1,533,182
Other assets	16,948,174	-	16,948,174	-	16,948,174	14,570,993
Claims on securitised assets	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	-	4,557,826	4,557,826	-	4,557,826	3,300,007
Total	**270,415,738**	**57,261,515**	**327,677,253**	**9,171,159**	**318,506,094**	**225,427,879**

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH (RATED/ UNRATED)

31 DECEMBER 2009

AED '000s

	Gross Credit Exposure				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
Claims on sovereigns	3,071,240	65,870,072	68,941,312	68,941,312	51,162
Claims on non-central government public sector entities	719,081	3,906,879	4,625,960	4,625,960	14,627
Claims on multi lateral development banks	-	-	-	-	-
Claims on banks	15,047,564	8,621,607	23,669,171	23,669,171	11,347,742
Claims on securities firms	-	-	-	-	-
Claims on corporates	1,858,435	158,219,383	160,077,818	154,320,448	154,162,537
Claims included in the regulatory retail portfolio	-	20,107,556	20,107,556	19,991,717	15,992,708
Claims secured by residential property	-	6,515,720	6,515,720	6,515,720	3,965,934
Claims secured by commercial real estate	-	3,446,601	3,446,601	3,446,601	3,446,601
Past due loans	-	6,152,729	6,152,729	6,152,729	1,402,960
Higher-risk categories	-	1,003,506	1,003,506	1,003,506	1,505,259
Other assets	-	15,573,143	15,573,143	15,573,143	12,862,002
Claims on securitised assets	27,544	-	27,544	27,544	13,772
Credit derivatives (Banks selling protection)	2,354,026	1,230,455	3,584,481	3,584,481	2,821,048
Total	**23,077,890**	**290,647,651**	**313,725,541**	**307,852,332**	**207,586,352**

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH (RATED/ UNRATED) (Continued)

31 DECEMBER 2008

AED '000s

	Gross Credit Exposure				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
Claims on sovereigns	1,545,037	51,674,538	**53,219,575**	53,219,575	176,999
Claims on non-central government public sector entities	104,497	15,406,194	**15,510,691**	15,510,691	10,417,502
Claims on multi lateral development banks	161,881	-	**161,881**	161,881	-
Claims on banks	17,025,959	9,954,192	**26,980,151**	26,980,151	7,130,117
Claims on securities firms	-	-	**-**	-	-
Claims on corporates	1,268,898	164,587,848	**165,856,746**	158,745,358	157,856,269
Claims included in the regulatory retail portfolio	-	25,397,062	**25,397,062**	23,337,291	18,414,389
Claims secured by residential property	-	5,266,410	**5,266,410**	5,266,410	2,638,454
Claims secured by commercial real estate	-	8,846,569	**8,846,569**	8,846,569	8,846,569
Past due loans	-	3,910,046	**3,910,046**	3,910,046	543,398
Higher-risk categories	-	1,022,122	**1,022,122**	1,022,122	1,533,182
Other assets	28,598	16,919,576	**16,948,174**	16,948,174	14,570,993
Claims on securitised assets	-	-	**-**	-	-
Credit derivatives (Banks selling protection)	3,364,101	1,193,725	**4,557,826**	4,557,826	3,300,007
Total	**23,498,971**	**304,178,282**	**327,677,253**	**318,506,094**	**225,427,879**

CREDIT RISK MITIGATION AS PER STANDARDISED APPROACH

	2009		2008	
	Gross credit exposure (AED 000)	**Risk weighted assets (AED 000)**	**Gross credit exposure (AED 000)**	**Risk weighted assets (AED 000)**
Gross exposure prior to credit risk mitigation	313,725,541	213,459,561	327,677,253	234,084,096
Exposure covered by eligible financial collateral	(5,873,209)	(5,873,209)	(9,171,159)	(8,656,217)
Net exposure prior to credit risk mitigation	**307,852,332**	**207,586,352**	**318,506,094**	**225,427,879**

CAPITAL REQUIREMENT FOR MARKET RISK AS PER STANDARDISED APPROACH

	2009 AED 000	**2008 AED 000**
Interest rate risk	158,985	322,154
Equity position risk	23,378	6,604
Foreign exchange risk	134,719	90,150
Total capital requirement	**317,082**	**418,908**

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK

31 DECEMBER 2009

(a) Quantitative Details of Equity Position

Type	FS Category (AFS/FVPL)	Basel II Category (Banking book)	Current Year Publicly Traded (AED '000s)	Current Year Privately Held (AED '000s)
Equities	2,943,162	2,943,162	503,753	2,439,409
Collective investment schemes	-	-	-	-
Any other investment	-	-	-	-
Total	**2,943,162**	**2,943,162**	**503,753**	**2,439,409**

(b) Realized, Unrealized & Latent revaluation gains/ (losses) during the year

Particulars	AED '000s AFS
Gains (Losses)	
Realized gains (losses) from sale and liquidations	35,941
Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	(64,866)
Latent revaluation gains (losses) for investment ecorded at cost but not recognized in balance sheet of profit and loss account	-
Total	**(28,925)**

(c) Items in (b) above included in Tier I/ Tier II Capital

Tier Capital	AED '000s Amount
Amount included in Tier I capital (realised gains)	44,670
Amount included in Tier II capital unrealised gains)	-
Total	**44,670**

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK (Continued)

31 DECEMBER 2009

(d) Capital requirements by Equity groupings

Grouping	AED '000s Amount
Strategic Investments	14,112
Available for Sale	280,204
Held for Trading	19,057
Total capital requirement	**313,373**

(e) Equity Investments (Quoted/ Unquoted) -Including private equity investments

AED '000s

Particulars	Banking Book (Per Basel II Definition)	Trading Book (Per Basel II Definition)
Quoted	503,753	119,106
Unquoted	2,439,409	-
Total	**2,943,162**	**119,106**

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK (Continued)

31 DECEMBER 2008

(a) Quantitative Details of Equity Position

Type	FS Category (AFS/FVPL)	Basel II Category (Banking book)	Current Year Publicly Traded	AED '000s Privately Held
Equities	3,828,116	3,828,116	912,783	2,915,333
Collective investment schemes	-	-	-	-
Any other investment	-	-	-	-
Total	**3,828,116**	**3,828,116**	**912,783**	**2,915,333**

(b) Realized, Unrealized & Latent revaluation gains/ (losses) during the year

Particulars	AED '000s AFS
Gains (Losses)	
Realized gains (losses) from sale and liquidations	(314,736)
Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	(1,045,963)
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet of profit and loss account	-
Total	**(1,360,699)**

(c) Items in (b) above included in Tier I/ Tier II Capital

Tier Capital	AED '000s Amount
Amount included in Tier I capital (realised gains)	-
Amount included in Tier II capital (unrealised gains)	-
Total	**-**

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK (Continued)

31 DECEMBER 2008

(d) Capital requirements by Equity groupings

Grouping	AED '000s Amount
Strategic Investments	-
Available for Sale	382,812
Held for Trading	4,321
Total capital requirement	**387,133**

(e) Equity Investments (Quoted/ Unquoted) -Including private equity investments

Particulars	Banking Book (Per Basel II Definition)	AED '000s Trading Book (Per Basel II Definition)
Quoted	912,783	27,006
Unquoted	2,915,333	-
Total	**3,828,116**	**27,006**

INTEREST RATE RISK IN BANKING BOOK

IMPACT OF 200 BPS SHIFT IN YIELD CURVES ON NET INTEREST INCOME

Shift in yield curves	2009 AED 000	2008 AED 000
+200 basis points	457,292	284,854
-200 basis points	(871,276)	(737,169)