بنك الإمارات دبي الوطني
Emirates NBD

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EMIRATES NBD (PJSC)

BASEL II - PILLAR III DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2010

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OVERVIEW

In November 2009, The Central Bank of the United Arab Emirates ("CBUAE") issued guidelines for implementation of Basel II Capital Accord in the banks in UAE. As per the circular, the Standardized Approach for Credit Risk was to apply immediately with an expectation that internationally active UAE banks and larger institutions will migrate to the Foundation Internal Rating Based (FIRB) in due course. The CBUAE Basel II framework is intended to strengthen the market discipline and risk management while enhancing the safety and soundness of the banking industry in UAE.

The guidelines for Pillar 1 – Calculation of Credit Risk pertain to the Standardized Approach of Basel II only. One of the major changes brought in with the new guidelines is the ability to apply, on an asset class basis, risk weightings determined from ratings provided by External Credit Assessment Institutions ("ECAI") approved by CBUAE.

CBUAE requires the Pillar 2 – Supervisory Review Process to focus on each bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based, forward looking view of Credit, Market and Operational Risk Capital.

The purpose of Pillar 3 – Market Discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The CBUAE supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy of the institution. The Pillar 3 disclosures, based on a common framework, are an effective means of informing the market about the risks faced by a bank, and provide a consistent and understandable disclosure framework that enhances transparency and comparability.

In compliance with the CBUAE 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

Introduction

The CBUAE supervises Emirates NBD ("ENBD" or the "bank") and its subsidiaries (together referred to as the "Group") on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital is computed at a Group level using the Basel II framework of the Basel Committee on Banking Supervision ("Basel Committee"), after applying the amendments advised by the CBUAE, within national discretion. Basel II is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Pillar III disclosures 2010

Pillar III complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Disclosures consist of both quantitative and qualitative information and are provided at the consolidated level.

Future Developments

The regulation and supervision of financial institutions is currently undergoing a period of significant change in response to the global financial crisis. Increased capital requirements and regulatory focus on Liquidity Risk have been announced by the Basel Committee in December 2010, commonly known as Basel III. These developments are being tracked by the Group and necessary dialogue conducted with the regulators, for timely changes to the Capital Management and Disclosure regimes.

Verification

The Pillar III Disclosures for the year 2010 have been appropriately verified internally and the quantitative information has been reviewed by the Group's external auditor, as per governing standards.

Implementation of Basel II guidelines

The Group is compliant with Standardized Approach for Credit, Market and Operational Risk (Pillar I) with effect from 31st December 2007.

The Bank also assigns capital on other than Pillar I risk categories, for 'Interest Rate risk on Banking Book' and for 'Business Risk', within the Pillar II framework. Details on Pillar II methodologies are contained in section – "Capital Management and Stress Testing" of this report.

Development on Advanced IRB Approaches (Credit Risk) is a multi track initiative, within the guidelines of the Central Bank and the Group is planning to complete migration to advanced approach during the year 2011, in consultation with the CBUAE.

Group Structure

The Bank was incorporated in the United Arab Emirates on 16 July 2007, under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The bank is listed on the Dubai Financial Market.

The Group's principal business activity is corporate, consumer, treasury and investment banking, card services, Islamic financing and asset management services.

The complete listing of all the subsidiaries and associate companies of Emirates NBD as of 31 December 2010 is as follows:

	Group % Shareholding	Nature of Business	Country of Incorporation	Description of Accounting Treatment (Consolidation/ Investment Accounting)	Description of Regulatory Capital Treatment (Consolidation/ Deduction from capital/ Neither)
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.	Consolidation	Consolidation
Diners Club (UAE) LLC	100	International charge card	Dubai, U.A.E.	Consolidation	Consolidation
E.T.F.S. LLC	100	Trade finance services	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Financial Services PSC	100	Funds management	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey, U.K.	Consolidation	Consolidation
Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.	Consolidation	Consolidation
Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Loyalty Company LLC	100	Customer loyalty and smart card services	Dubai, U.A.E.	Consolidation	Consolidation
Emirates NBD Asset Management Limited (registered in Dubai International Financial Centre)	100	Asset management	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Islamic Bank PJSC	99.8	Islamic banking	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Money Consumer Finance LLC	100	Consumer finance	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Funds LLC	100	Asset management	Dubai, U.A.E.	Consolidation	Consolidation
Emirates NBD Capital Limited (registered in Dubai International Financial Centre)	100	Investment banking	Dubai, U.A.E.	Consolidation	Consolidation
Emirates NBD Capital (KSA) LLC	100	Investment services	KSA	Consolidation	Consolidation
Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey, U.K.	Consolidation	Consolidation
Network International LLC	100	Card processing services	Dubai, U.A.E.	Consolidation	Consolidation
Entities based on assessment of control:					
Group tranche of Emblem Finance Company No. 2 Limited		SPE for asset securitization		Consolidation	Consolidation
Emirates NBD Auto Financing Limited ("Repack")		SPE for asset securitization		Consolidation	Consolidation
Emirates NBD Auto Finance Limited ("APC")		SPE for asset securitization		Consolidation	Consolidation

	Group % Shareholding	Nature of Business	Country of Incorporation	Description of Accounting Treatment (Consolidation/ Investment Accounting)	Description of Regulatory Capital Treatment (Consolidation/ Deduction from capital/ Neither)
Associates:					
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.	Equity Accounting	Neither - Included in gross credit exposure at carrying value
Union Properties PJSC	47.6	Real estate	Dubai, U.A.E.	Equity Accounting	Neither - Included in gross credit exposure at carrying value
Joint ventures:					
Sinnad W.L.L.	49	Third party ATM and card processing services	Bahrain	Equity Accounting	Neither - Included in gross credit exposure at carrying value
Obernet L.L.C.	51	Card embossing	Dubai, U.A.E.	Equity Accounting	Neither - Included in gross credit exposure at carrying value

CONSOLIDATED CAPITAL STRUCTURE

The Group's regulatory capital is calculated as per the guidelines issued by CBUAE and it comprises of:

a. **Tier 1 Capital** which is considered as the core measure of the Group's financial strength and includes share capital, reserves, retained earnings and minority interests (net of treasury shares and goodwill) and;

b. **Tier 2 Capital** which consists of qualified subordinated debts and allowed portions of revaluation reserves & general provisions.

The Bank's share capital as at 31 December 2010 comprised of 5,557,774,724 issued and fully paid shares of value AED 1 each. The detailed breakdown of the capital structure of the bank is as follows:

Particulars	2010 AED 000	2009 AED 000
Tier 1 Capital		
1. Paid up share capital/ common stock	17,827,899	17,827,899
2. Reserves		
a. Statutory reserve	2,198,205	1,964,205
b. Special reserve	-	-
c. General reserve	9,569,942	8,859,342
3. Non-controlling interest in the equity of subsidiaries	93,820	94,145
4. Innovative capital instruments	-	-
5. Other capital instruments	4,000,000	4,000,000
6. Surplus capital from insurance companies	-	-
Subtotal	**33,689,866**	**32,745,591**
Less: Deductions for regulatory calculation	-	-
Less: Deductions from Tier 1 capital	(5,997,786)	(6,091,646)
Tier 1 Capital - Subtotal (A)	**27,692,080**	**26,653,945**
Tier 2 Capital (B)	**15,873,694**	**15,178,143**
Less: Other deductions from capitals (C)	-	-
Tier 3 Capital (D)	**-**	**-**
Total eligible capital after deductions (A+B+C+D)	**43,565,774**	**41,832,088**

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

The Group's Capital Adequacy ratio as at 31 December 2010 was 20.06 % and Tier 1 ratio was 12.75 % (in 2009, the Capital Adequacy ratio was 18.68% and Tier 1 ratio11.90%) against the regulatory requirement of minimum of 12% and 8% (in 2009, 11% and 7%) respectively. The Group ensures adherence to CBUAE requirements by monitoring its Capital Adequacy against higher internal limits.

Each banking subsidiary is directly regulated by its local banking supervisor which sets and monitors its capital adequacy requirements. CBUAE monitors the Capital Adequacy requirements of Emirates NBD at the Group level and also separately for Emirates Islamic Bank, a subsidiary of Emirates NBD.

CAPITAL ADEQUACY (STANDARDIZED APPROACH)

	2010	2009
	Capital Charge (AED '000s)	**Capital Charge (AED '000s)**
Capital Requirements		
Credit Risk	24,128,905	20,758,635
Market Risk	281,968	317,082
Operational Risk	1,651,515	1,314,066
	----------------	----------------
Total Capital Requirements (Refer Note)	**26,062,388**	**22,389,783**
	=========	=========
Capital Ratio		
Total for Top consolidated Group	**20.06%**	**18.68%**
Tier 1 ratio only for top consolidated group	**12.75%**	**11.90%**
Total for each significant bank subsidiary (Emirates Islamic Bank)	**17.56%**	**15.72%**

Note

Risk weighted assets as at 31 December 2010 is AED 217,187 million and as at 31 December 2009 is AED 223,898 million

Standardized Approach – Credit risk & credit risk mitigation

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

- 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 CBUAE.
- 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 standardized 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.

Credit Risk

The total capital charge for credit risk as at 31 December 2010 is AED 24,129 million (2009: AED 20,759 million) as detailed below:

GROSS CREDIT EXPOSURE AS PER STANDARDIZED APPROACH

	2010		2009	
	Gross Exposure	Risk Weighted Assets	Gross Exposure	Risk Weighted Assets
Claims on sovereigns	**90,499,982**	**213,003**	68,941,312	51,162
Claims on non-central government public sector entities	**2,512,306**	**29,192**	4,625,960	14,627
Claims on multi lateral development banks	**-**	**-**	-	-
Claims on banks	**21,207,688**	**9,992,444**	23,669,171	11,347,742
Claims on securities firms	**-**	**-**	-	-
Claims on corporate	**140,673,713**	**134,893,711**	169,488,108	153,825,309
Claims included in the regulatory retail portfolio	**15,241,817**	**11,763,539**	20,107,556	15,992,708
Claims secured by residential property	**6,092,656**	**3,831,315**	6,515,720	3,965,934
Claims secured by commercial real estate	**2,248,033**	**2,248,033**	3,446,601	3,446,601
Past due loans	**22,993,301**	**20,886,606**	6,834,922	1,740,188
Higher-risk categories	**693,857**	**1,040,786**	1,003,506	1,505,259
Other assets	**18,877,363**	**14,126,508**	15,573,143	12,862,002
Claims on securitized assets	**-**	**-**	27,544	13,772
Credit derivatives (Banks selling protection)	**3,345,280**	**2,049,071**	3,584,481	2,821,048
Total	**324,385,996**	**201,074,208**	**323,818,024**	**207,586,352**

Market Risk

Market risks subject to capital charge are as follows:
- Interest Rate Risk
- Foreign Exchange Risk
- Equity Exposure Risk
- Commodity Risk
- Options Risk

The scope of the charges is restricted to 'trading book' only for the interest rate risk and equity positions whilst the remaining will apply to the bank's entire positions.

The total Capital requirement for Market Risk as at 31 December 2010 is AED 282 million (2009: AED 317 million) as detailed below:

CAPITAL REQUIREMENT FOR MARKET RISK AS PER STANDARDIZED APPROACH

	2010 AED 000	2009 AED 000
Interest rate risk	227,668	158,985
Equity position risk	26,371	23,378
Foreign exchange risk	27,929	134,719
Total capital requirement	**281,968**	**317,082**

Operational Risk

Basel II framework outlines three methods for calculating the risk charge for operational risk – Basic Indicator, Standardized Approach and Advanced Measurement Approach. The Group presently follows the Standardized Approach.

The total capital requirement for Operational Risk as at 31 December 2010 is AED 1,652 million (2009: AED 1,314 million). This charge is computed by categorizing the Group's activities into 8 business lines (as defined by Basel II guidelines) and multiplying the line's three year average gross income by a pre defined beta factor.

RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management framework:

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 General Manager, RISK ("CRO"). This function is independent of the business divisions.
- Credit, market, operational, liquidity, Interest Rate Risk in Banking Book and other risks (such as Compliance, Reputational and Business risk) are managed within the Group Risk Function.
- 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.

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 and provisioning guidelines.

Credit Risk (Continued)

The Board and the Board Credit and Investment Committee ("BCIC") have delegated authority to the Management Credit and Investment Committee ("MCIC") and 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 consumer 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, customers' creditworthiness, sources of re-payment, prevailing and potential macro-economic factors, industry trends and also 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 – Internal rating models have been developed and implemented across various business segments of the Group to assess the credit quality of the borrowers. The bank uses these models to assign internal risk grades to these borrowers on the bank's rating Masterscale. The rating Masterscale consists of 24 performing and 4 non-performing or default grades. In parallel each borrower is rated on a scale of 1 to 5, in line with the CBUAE requirements.
- Management of high risk accounts – This includes identification of delinquent accounts, sectors with higher risk 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 consumer 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.
- Consumer 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 Probability of Default ("PDs") are used to map consumer exposures to the bank's Masterscale.

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.

Concentration Risk (Continued)

The Group manages the concentration risk by establishing industry limits to diversify the exposures to various sectors. 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.

Single Name concentration is monitored on an individual basis with the top 12 and top 20 credit exposures being reported to the management on monthly basis. The Group complies with the single obligor limits set by the CBUAE (Circular 16/93) requiring banks to seek CBUAE approval for any planned exposure to a single counterparty or group of connected parties exceeding 25% of total Capital Base for Commercial Public Sector Entities and 7% for commercial or other non commercial private sector entity.

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. Within the economic capital framework, concentration risk is 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.

Gross Credit Exposures as per different Currency's are listed below:

GROSS CREDIT EXPOSURE – CURRENCY CLASSIFICATION

31 DECEMBER 2010 **AED '000s**

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
Foreign Currency	33,923,053	6,799,842	22,555,808	**63,278,703**	635,850	3,277,342	15,949,066	**19,862,258**	**83,140,961**
AED	154,654,525	2,101,992	65,554,503	**222,311,020**	1,658,166	499,253	16,776,596	**18,934,015**	**241,245,035**
Total	**188,577,578**	**8,901,834**	**88,110,311**	**285,589,723**	**2,294,016**	**3,776,595**	**32,725,662**	**38,796,273**	**324,385,996**

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**

The group's credit exposure by Geography and Economic activity, both funded and non-funded is detailed below:

GROSS CREDIT EXPOSURE BY GEOGRAPHY

31 DECEMBER 2010 **AED '000s**

	Loans	Debt securities	Other assets	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded	Total
United Arab Emirates	180,205,327	3,780,956	69,836,318	**253,822,601**	1,930,108	2,594,592	29,580,893	**34,105,593**	**287,928,194**
GCC excluding UAE	3,943,582	1,877,383	8,301,977	**14,122,942**	362,941	70,007	737,392	**1,170,340**	**15,293,282**
Arab League (excluding GCC)	39,753	116,048	189,124	**344,925**	16	223	201,423	**201,662**	**546,587**
Asia	761,442	268,673	1,094,933	**2,125,048**	892	1,349	1,037,688	**1,039,929**	**3,164,977**
Africa	3,562	-	154,733	**158,295**	-	-	7,689	**7,689**	**165,984**
North America	117,550	912,721	2,612,754	**3,643,025**	37	126,093	11,698	**137,828**	**3,780,853**
Europe	2,031,198	1,794,114	5,438,399	**9,263,711**	22	984,270	1,146,035	**2,130,327**	**11,394,038**
Australia	-	-	12	**12**	-	61	425	**486**	**498**
Others	1,475,164	151,939	482,061	**2,109,164**	-	-	2,419	**2,419**	**2,111,583**
Total	**188,577,578**	**8,901,834**	**88,110,311**	**285,589,723**	**2,294,016**	**3,776,595**	**32,725,662**	**38,796,273**	**324,385,996**

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**
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**

GROSS CREDIT EXPOSURE BY ECONOMIC ACTIVITY
31 DECEMBER 2010

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	36,076	-	629	**36,705**	-	-	-	**-**	**36,705**
Crude, oil gas, mining & quarrying	273,336	-	34,689	**308,025**	-	-	166,935	**166,935**	**474,960**
Manufacturing	7,755,030	516,068	833,470	**9,104,568**	17,981	-	204,028	**222,009**	**9,326,577**
Electricity & Water	-	-	-	**-**	-	-	471,934	**471,934**	**471,934**
Construction	5,510,423	338,668	875,855	**6,724,946**	737,481	-	1,239,723	**1,977,204**	**8,702,150**
Trade	6,840,720	-	714,382	**7,555,102**	119,733	-	3,202,014	**3,321,747**	**10,876,849**
Transport, Storage & Communication	5,131,480	706,317	618,360	**6,456,157**	234,290	-	857,839	**1,092,129**	**7,548,286**
Financial Institutions	25,866,168	4,052,477	66,034,315	**95,952,960**	22,760	2,736,661	4,827,847	**7,587,268**	**103,540,228**
Real Estate	25,926,913	132,228	10,854,791	**36,913,932**	21,000	-	4,036,589	**4,057,589**	**40,971,521**
Services	17,553,754	155,427	2,095,441	**19,804,622**	142,987	-	1,307,065	**1,450,052**	**21,254,674**
Government	52,998,082	2,218,433	363,667	**55,580,182**	-	-	6,383	**6,383**	**55,586,565**
Retail/ Consumer Banking	21,310,040	-	2,639,612	**23,949,652**	-	-	1,618,971	**1,618,971**	**25,568,623**
Personal – corporate	10,209,843	-	1,845,320	**12,055,163**	147,838	-	-	**147,838**	**12,203,001**
All Others	7,059,175	782,216	1,197,730	**9,039,121**	849,946	1,039,934	14,786,334	**16,676,214**	**25,715,335**
Add: Grossing up of interest in suspense	2,106,538	-	2,050	**2,108,588**	-	-	-	**-**	**2,108,588**
Total	**188,577,578**	**8,901,834**	**88,110,311**	**285,589,723**	**2,294,016**	**3,776,595**	**32,725,662**	**38,796,273**	**324,385,996**

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 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.

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 and credit 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 specialized "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 enhanced 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 implemented a Masterscale comprising of 24 performing and 4 non performing grades. The rating Masterscale is used across the Group and provides a consistent view on credit risks across different counterparties and products i.e. retail, corporate, small and medium enterprises, sovereigns, banks and financial institutions.

Corporate and SME Models

The bank has developed internal rating models to determine the probability of default for Corporate and SME portfolios. These models are developed using expert panel approach. This approach utilizes the knowledge of credit/business experts that have experience of the customer/industry type being modeled. These models combine quantitative & qualitative aspect of the borrower to arrive at the standalone rating. A comprehensive early warning framework ensures that all market based warning signals are picked up to initiate account specific actions in a timely manner.

Financial Institutions Models

The Group has developed internal models for its Banks and Financial Institutions portfolios. These models have been developed using the shadow ratings approach. Bank's internal processes and procedures have been aligned to ensure that deterioration in credit quality of the counterparties is picked up proactively through early warning signals monitoring which is an integral part of the internal rating model.

Retail Scorecards

Retail 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 to enhance cross-selling campaigns, collections strategy and portfolio monitoring. The group has introduced risk based pricing in 2010.

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

	Model development	Implementation
Corporate		
• Corporate	Ready	Completed
• SMEs	Ready	Completed
Retail		
• Personal Loans (Nationals)	Ready	Completed
• Personal Loans (Expatriates)	Ready	Completed
• Auto Loans	Ready	Completed
• Credit Cards	Ready	Completed
• Home Loans	Ready	Completed
Islamic Products		
• Vehicle Murabaha	Completed	In progress
• Goods Murabaha	Not Started	Not Started
• Credit Cards	In progress	Not Started
• Other Murabaha	Not Started	Not Started
Consumer Finance		
• Unsecured Personal Loans	Completed	Completed
Financial Institutions & Banks	Completed	Completed

Model Governance and Validation

Group standards govern the process through which risk rating systems are initially developed, judged fit for purpose, approved and implemented; the conditions under which analytical risk model outcomes can be overridden by decision-takers; and the process of model performance monitoring and reporting. The emphasis here is on an effective dialogue between business lines and risk management, suitable independence of decision takers, and a good understanding and robust challenge on the part of senior management. Like other facets of risk management, analytical risk rating systems are not static and are subject to review and modification to adapt to the changing environment and the greater availability and quality of data.

The bank enforces a comprehensive Risk Model Governance for all its Risk Models; this includes but is not limited to Credit Risk Models. In order to ensure an independent review of its models, the bank employs competent third party validating agencies.

Group credit risk mitigation strategy:

The Group operates within:

1. Exposure ceilings imposed by the CBUAE;
2. Exposure ceilings imposed by the Board / BCIC / MCIC / Management delegated limits;
3. Country limits approved by the Board / BCIC / MCIC / Management delegated limits; and
4. Various sectoral/ product ceilings.

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by limiting concentration through 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 collateral, the Group seeks to ensure the enforceability of the collateral.

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 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 Gross Credit Exposures as per Standardized Approach with the effect of CRM as detailed below:

GROSS CREDIT EXPOSURE AS PER STANDARDIZED APPROACH

31 DECEMBER 2010	On Balance Sheet	Off Balance Sheet		Credit Risk Mitigation (CRM)			Risk Weighted Assets
	Gross Outstanding	Net Exposure after Credit Conversion Factors (CCF)	Total Gross Exposure	Exposure Before CRM	CRM	After CRM	AED '000s
Claims on sovereigns	90,493,599	6,383	90,499,982	90,499,982	-	90,499,982	**213,003**
Claims on non-central government public sector entities	2,223,997	288,309	2,512,306	2,512,306	-	2,512,306	**29,192**
Claims on multi lateral development banks	-	-	-	-	-	-	**-**
Claims on banks	16,722,220	4,485,468	21,207,688	21,178,148	-	21,178,148	**9,992,444**
Claims on securities firms	-	-	-	-	-	-	**-**
Claims on corporate	110,905,984	29,767,729	140,673,713	140,502,547	5,669,050	134,833,497	**134,893,711**
Claims included in the regulatory retail portfolio	14,338,713	903,104	15,241,817	15,241,817	490,357	14,751,460	**11,763,539**
Claims secured by residential property	6,092,656	-	6,092,656	6,092,656	-	6,092,656	**3,831,315**
Claims secured by commercial real estate	2,248,033	-	2,248,033	2,248,033	-	2,248,033	**2,248,033**
Past due loans	22,993,301	-	22,993,301	14,757,339	-	14,757,339	**20,886,606**
Higher-risk categories	693,857	-	693,857	693,857	-	693,857	**1,040,786**
Other assets	18,877,363	-	18,877,363	18,388,402	-	18,388,402	**14,126,508**
Claims on securitized assets	-	-	-	-	-	-	**-**
Credit derivatives (Banks selling protection)	-	3,345,280	3,345,280	3,345,280	-	3,345,280	**2,049,071**
Total	**285,589,723**	**38,796,273**	**324,385,996**	**315,460,367**	**6,159,407**	**309,300,960**	**201,074,208**

GROSS CREDIT EXPOSURE AS PER STANDARDIZED APPROACH (Continued)

31 DECEMBER 2009	On Balance Sheet	Off Balance Sheet		Credit Risk Mitigation (CRM)			Risk Weighted Assets
	Gross Outstanding	Net Exposure after Credit Conversion Factors (CCF)	Total Gross Exposure	Exposure Before CRM	CRM	After CRM	AED '000s
Claims on sovereigns	68,908,560	32,752	68,941,312	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	-	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	-	23,669,171	**11,347,742**
Claims on securities firms	-	-	-	-	-	-	**-**
Claims on corporate	133,269,669	36,218,439	169,488,108	159,395,625	5,757,370	153,638,255	**153,825,310**
Claims included in the regulatory retail portfolio	19,631,003	476,553	20,107,556	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	-	6,515,720	**3,965,934**
Claims secured by commercial real estate	3,446,601	-	3,446,601	3,446,601	-	3,446,601	**3,446,601**
Past due loans	6,834,922	-	6,834,922	6,834,922	-	6,834,922	**1,740,187**
Higher-risk categories	1,003,506	-	1,003,506	1,003,506	-	1,003,506	**1,505,259**
Other assets	15,573,143	-	15,573,143	15,573,143	-	15,573,143	**12,862,002**
Claims on securitized assets	27,544	-	27,544	27,544	-	27,544	**13,772**
Credit derivatives (Banks selling protection)	-	3,584,481	3,584,481	3,584,481	-	3,584,481	**2,821,048**
Total	**276,389,176**	**47,428,848**	**323,818,024**	**313,725,541**	**5,873,209**	**307,852,332**	**207,586,352**

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

31 DECEMBER 2010

AED '000s

	Rated	Unrated	Total Gross Exposure	Total Net Exposure	Post CRM	RWA Post CRM
Claims on sovereigns	2,635,829	87,864,153	90,499,982	90,499,982	90,499,982	213,003
Claims on non-central government public sector entities	642,473	1,869,833	2,512,306	2,512,306	2,512,306	29,192
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	18,774,083	2,433,605	21,207,688	21,178,148	21,178,148	9,992,444
Claims on securities firms	-	-	-	-	-	-
Claims on corporate	993,324	139,680,389	140,673,713	140,502,547	134,833,497	134,893,711
Claims included in the regulatory retail portfolio	-	15,241,817	15,241,817	15,241,817	14,751,460	11,763,539
Claims secured by residential property	-	6,092,656	6,092,656	6,092,656	6,092,656	3,831,315
Claims secured by commercial real estate	-	2,248,033	2,248,033	2,248,033	2,248,033	2,248,033
Past due loans	-	22,993,301	22,993,301	14,757,339	14,757,339	20,886,606
Higher-risk categories	-	693,857	693,857	693,857	693,857	1,040,786
Other assets	1,121,864	17,755,499	18,877,363	18,388,402	18,388,402	14,126,508
Claims on securitized assets	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	2,427,155	918,125	3,345,280	3,345,280	3,345,280	2,049,071
Total	**26,594,728**	**297,791,268**	**324,385,996**	**315,460,367**	**309,300,960**	**201,074,208**

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

31 DECEMBER 2009

AED '000s

	Rated	Unrated	Total Gross Exposure	Total Net Exposure	Post CRM	RWA Post CRM
Claims on sovereigns	3,071,240	65,870,072	68,941,312	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	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	23,669,171	11,347,742
Claims on securities firms	-	-	-	-	-	-
Claims on corporate	1,858,435	167,629,673	169,488,108	159,395,625	153,638,255	153,825,310
Claims included in the regulatory retail portfolio	-	20,107,556	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	6,515,720	3,965,934
Claims secured by commercial real estate	-	3,446,601	3,446,601	3,446,601	3,446,601	3,446,601
Past due loans	-	6,834,922	6,834,922	6,834,922	6,834,922	1,740,187
Higher-risk categories	-	1,003,506	1,003,506	1,003,506	1,003,506	1,505,259
Other assets	-	15,573,143	15,573,143	15,573,143	15,573,143	12,862,002
Claims on securitized assets	27,544	-	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	3,584,481	2,821,048
Total	**23,077,890**	**300,740,134**	**323,818,024**	**313,725,541**	**307,852,332**	**207,586,352**

CREDIT RISK MITIGATION AS PER STANDARDIZED APPROACH

	2010		2009	
	Gross credit exposure (AED '000s)	**Risk weighted assets (AED '000s)**	**Gross credit exposure (AED '000s)**	**Risk weighted assets (AED '000s)**
Gross exposure prior to credit risk mitigation	324,385,996	216,159,244	323,818,024	223,552,044
Exposure covered by on-balance sheet netting	(8,925,629)	(8,925,629)	(10,092,483)	(10,092,483)
Exposure covered by eligible financial collateral	(6,070,392)	(6,070,392)	(5,873,209)	(5,873,209)
Exposures covered by Guarantees	(89,015)	(89,015)		
Net exposure prior to credit risk mitigation	**309,300,960**	**201,074,208**	**307,852,332**	**207,586,352**

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 adherence with the revised terms for a minimum period of twelve months from the date of restructuring. Renegotiated loans are secured by a combination of tangible security and/ or 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.

Past due but not impaired

Corporate exposures where contractual interest or principal payment are past due for more than 90 days, but based upon individual assessment the Group determines 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.

Definition of impaired financial assets

A counterparty is marked as impaired if:

(a) In case of corporate exposures, the Group considers the counterparty unlikely to pay the full amount outstanding under the original terms of the contract 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 consumer, if the exposure is past due for more than 90 days.

Measurement of specific impairment

Corporate: The Group determines the impairment 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 when a trigger indicating losses has occurred. 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.

Consumer: Criteria for provisions are based on products, namely, credit cards and other consumer loans. All consumer 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 estimated 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 considered to determine the collective impairment provisions for the corporate portfolios. To ensure that the impact of economic cycles are 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.

Consumer: Collective impairment provisions for the consumer portfolios are determined based on a flow rates methodology. Flow rates for various consumer 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 Specialized Loans Group for specialized remedial management and, where appropriate, written off as approved by the board.

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

The details of impaired loans by Geography and Economic Activity are as below:

IMPAIRED LOANS BY ECONOMIC ACTIVITY

31 DECEMBER 2010 **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	-	2,514	2,514	-	-	-	-	171	**2,343**
Manufacturing	-	995,840	995,840	368,711	-	251	1,306	77,974	**549,155**
Electricity & Water	-	-	-	-	-	-	-	-	**-**
Construction	-	415,552	415,552	214,325	-	1,438	11,529	37,465	**163,762**
Trade	-	317,594	317,594	92,499	-	33,190	37,312	81,306	**143,789**
Transport, Storage & Communication	-	53,926	53,926	8,576	-	-	-	4,499	**40,851**
Financial Institutions	-	12,342,259	12,342,259	1,336,965	-	-	-	10,384	**10,994,910**
Real Estate	-	587,115	587,115	398,837	-	-	31	31,550	**156,728**
Services	-	582,536	582,536	45,672	-	146	6	11,808	**525,056**
Government	-	-	-	-	-	-	-	-	**-**
Retail/ Consumer Banking	-	6,486,564	6,486,564	3,214,836	-	437,446	60,729	1,738,487	**1,533,241**
All Others	-	1,209,401	1,209,401	449,003	-	826	6,983	112,894	**647,504**
Total	**-**	**22,993,301**	**22,993,301**	**6,129,424**	**2,192,636**	**473,297**	**117,896**	**2,106,538**	**14,757,339**

IMPAIRED LOANS BY ECONOMIC ACTIVITY (Continued)

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	-	701,908	701,908	349,654	-	669	11,526	236	**352,018**
Total	**-**	**6,834,922**	**6,834,922**	**4,090,414**	**1,857,921**	**373,980**	**181,940**	**1,004,321**	**1,740,187**

IMPAIRED LOANS BY GEOGRAPHY

31 DECEMBER 2010 **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	-	21,453,218	21,453,218	5,137,047	-	473,297	90,727	2,023,288	**14,292,883**
GCC excluding UAE	-	1,106,592	1,106,592	701,013	-	-	-	37,335	**368,244**
Arab League (excluding GCC)	-	6,486	6,486	4,094	-	-	-	2,396	**(4)**
Asia	-	62,087	62,087	18,831	-	-	27,169	43,519	**(263)**
Africa	-	-	-	-	-	-	-	-	**-**
North America	-	91,812	91,812	91,812	-	-	-	-	**-**
South America	-	-	-	-	-	-	-	-	**-**
Caribbean	-	-	-	-	-	-	-	-	**-**
Europe	-	273,106	273,106	176,627	-	-	-	-	**96,479**
Australia	-	-	-	-	-	-	-	-	**-**
Others	-	-	-	-	-	-	-	-	**-**
Total	**-**	**22,993,301**	**22,993,301**	**6,129,424**	**2,192,636**	**473,297**	**117,896**	**2,106,538**	**14,757,339**

IMPAIRED LOANS BY GEOGRAPHY (Continued)

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	-	5,948,689	5,948,689	3,709,402	-	669	181,940	992,202	**1,247,085**
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	**-**	**6,834,922**	**6,834,922**	**4,090,414**	**1,857,921**	**373,980**	**181,940**	**1,004,321**	**1,740,187**

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED LOANS

	2010 AED '000s	2009 AED '000s
Balance of provision for impaired loans as at 1 January	5,948,335	3,313,790
Add: Charge for the year		
• Specific provisions	2,630,203	1,903,417
• General provisions	579,715	1,287,048
Less: Write-off of impaired loans to income statement	(473,297)	(373,980)
Less: Recovery of loans previously written off	(117,896)	(181,940)
Less: Write back of loan loss provisions	(245,000)	-
Balance of provision for impaired loans as at 31 December	**8,322,060**	**5,948,335**

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 prices. This can be divided into basic market risk factors such as foreign exchange rates, interest rates, equity prices and their volatilities.

The Group separates exposures to market risk into trading and non-trading portfolios. Trading portfolios include those positions arising from market-making, position-taking and other marked-to-market positions so designated. Non-trading portfolios include positions that arise from the interest rate management of Group's consumer and commercial banking assets and liabilities, financial investments designated as available for sale and held to maturity. The application of risk management processes/ techniques to the trading portfolios is described in the section below.

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 (example: 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. Defined 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 (for example: The Central Bank of the UAE, DFSA), it operates in.

Market Risk 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 before being proposed to the BCIC for approval. This ensures that all limits are approved and delegated in close consultation with Market risk. All limit breaches are recorded by market risk and reported to the CRO, Head of Treasury and the responsible desk head. 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 ALCO on monthly basis.

Market Risk monitors limit utilization on a daily basis through a multi-layered Limit Monitoring System which uses data and reports from the treasury systems.

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 ALCO pack which is provided to senior management.

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

- Stop loss limit for foreign exchange and interest rate derivatives trading desk.
- Overall PV01 (present value of a 1 basis point shift) 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

Trading book managed by Market Risk management

The Group has a conservative trading policy. 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 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 over the counter (OTC) products. Delta, Gamma and Vega limits are established for options trading.

VaR based risk monitoring

- **VaR based risk monitoring**

Market risk has implemented Reuters' KVaR+ system for 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 the Group uses a transformed distribution (based on the original distribution to preserve the characteristics of the empirical distribution).

The VaR system is set up to generate daily reports at two different confidence Levels and under two different holding period assumptions, as shown in the following table:

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

The KVaR+ system has been configured to highlight the independent impact of every risk factor that contributes to the total VaR figure. Thus the Group'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	2010 AED '000s	2009 AED '000s
As at 31 December	5,374	4,440
Average	7,039	3,762
Minimum	1,923	1,519
Maximum	16,068	7,306

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book ('IRRBB') is defined as the exposure of the non-trading products of the Group to interest rates. Non-trading portfolios include positions that arise from the interest rate management of the Group's consumer and commercial banking assets and liabilities, and financial investments designated as available for sale and held to maturity. IRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of prepayments in consumer loans, and from behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

In order to manage this risk optimally, IRRBB in non-trading portfolios is transferred to Treasury or to separate books managed under the supervision of the Group ALCO, through Funds Transfer Pricing (FTP) Systems. This transfer is usually achieved by a series of synthetic internal deals between the business units and these books. When the behavioral characteristics of a product differ from its contractual characteristics, the behavioral characteristics are assessed to determine the true underlying interest rate risk. Group ALCO is required to regularly monitor all such behavioral assumptions and interest rate risk positions to ensure they comply with interest rate risk limits.

Group Risk 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.

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 impact on its Net Interest Income.

	As at 31 December 2010		As at 31 December 2009	
	Amount AED '000s	Variance AED '000s	Amount AED '000s	Variance AED '000s
Rates Up 200 bp	5,962,790	706,000	5,656,462	457,292
Base Case	5,256,790	-	5,199,170	-
Rates Down 200 bp	4,349,198	(907,591)	4,327,894	(871,276)

The interest rate sensitivities set out in the table above are based on simplified scenarios i.e. the projections above assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential effect on net interest income of some rates changing while others remain unchanged. This effect, however, does not incorporate actions that would be taken by Treasury or in the business units to mitigate the impact of this interest rate risk. In reality, Treasury seeks proactively to change the interest rate risk profile to minimize losses and optimize net revenues. The projections make other simplifying assumptions too, including that all positions run to maturity.

To measure and manage interest rate risk and its possible impact on Economic Value of the entity, the Group has established internal limits based on the PV 01. The interest rate gaps and sensitivity tests (NII and PV01) are measured on a monthly basis by Group Risk, and monitored by Group ALCO.

Equity Position Risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The capital requirement for equity position risk as at 31 December 2010 is AED 26.37 million (as at 31 December 2009 is AED 23.38 million).

As at 31 December 2010, the bank's total equity investment portfolio in the banking book amounted to AED 2,352 million (as at 31 December 2009 is AED 2,943 million), of which 30% represents quoted investments. For details of the accounting policies and valuation methodology, please refer to NOTE 3 (d) of the Consolidated Financial Statements under 'Significant Accounting Policies'.

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK

31 DECEMBER 2010

(a) Quantitative Details of Equity Position

				AED '000s
			Current Year	
Type	**FS Category (AFS/FVPL)**	**Basel II Category (Banking book)**	**Publicly Traded**	**Privately Held**
Equities	2,352,388	2,352,388	1,298,479	1,053,909
Collective investment schemes	-	-	-	-
Any other investment	-	-	-	-
Total	**2,352,388**	**2,352,388**	**1,298,479**	**1,053,909**

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

Gains (Losses)	**AED '000s**
Realized gains (losses) from sale and liquidations	216,436
Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	834,671
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet of profit and loss account	-
Total	**1,051,107**

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

Tier Capital	**AED '000s**
Amount included in Tier I capital (realized gains)	**216,436**
Amount included in Tier II capital (unrealised gains)	**47,655**
Total	**264,091**

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

31 DECEMBER 2010

(d) Capital requirements by Equity groupings

Grouping	**AED '000s**
Strategic Investments	17,618
Available for Sale	264,668
Held for Trading	26,371
Total capital requirement	**308,657**

(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	707,260	137,347
Unquoted	1,645,128	-
Total	**2,352,388**	**137,347**

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

31 DECEMBER 2009

(a) Quantitative Details of Equity Position

				AED '000s
			Current Year	
Type	**FS Category (AFS/FVPL)**	**Basel II Category (Banking book)**	**Publicly Traded**	**Privately Held**
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

Gains (Losses)	**AED '000s**
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 recorded 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 included in Tier I capital (realized 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**
Strategic Investments	14,112
Available for Sale	280,024
Held for Trading	23,378
Total capital requirement	**317,514**

(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**

Emirates NBD بنك الإمارات دبي الوطني

Foreign Exchange Risk

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.

The capital requirement for foreign exchange risk as at 31 December 2010 is AED 27.93 million (as at 31 December 2009 is AED 134.72 million).

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 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 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 analysis 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 entities 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, (Structural Funding Risk), or because of the inability to convert assets into cash, (Market Liquidity Risk), at reasonable prices. The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure -
The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due, and that access to the wholesale markets is co-ordinated and cost-effective. To this end, the Group maintains a diversified funding base comprising core consumer and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Group to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity risk is managed centrally by the Group ALCO where liquidity risk is a standing agenda item. Group ALCO, comprises of the CEO, Chief Financial Officer ("CFO"), CRO, General Manager – Treasury, Deputy CEO – Wholesale Banking and Deputy CEO - Consumer & Wealth Management, is the central authority for identifying and managing such risk. Group Risk is responsible for liquidity measurement, monitoring and control and reports risk exposures independently to the Group ALCO.

Policies and Procedures
The Group ALCO, through the Treasury operates a centralized governance and control process that covers the Group's liquidity risk management activities. The subsidiaries coordinate their capital and wholesale market funding at optimal pricing through Treasury, under the oversight and direction of the Group ALCO.

Specifically, liquidity and funding management process includes:

- projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- 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, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments.
- monitoring balance sheet liquidity and advances to deposits ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimizing adverse long-term implications for the business.

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 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/ concentrations;
- Varied funding programs;
- Investor diversification; and
- Mix of channels (Consumer Vs Corporate) and liability products

Liquidity Risk Mitigation

The Group ALCO, in conjunction with Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. The Group maintains adequate liquidity buffers of high credit quality (minimum AA-), which can be monetized at short notice and minimal cost. 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, recognizes that users and providers of liquidity as a resource should be compensated in an equitable and transparent manner. This is achieved through adjustments to the Funds Transfer Pricing ("FTP") system which is aligned to charge/compensate for liquidity of the underlying assets or 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.

The Group uses cash-flow stress testing as part of its control processes to assess liquidity risk. The Group does not manage liquidity through the explicit allocation of capital as, in common with standard industry practice, this is not considered to be an appropriate or adequate mechanism for managing these risks. However, the Group recognizes that a strong capital base can help to mitigate liquidity risk both by providing a capital buffer to allow an entity to raise funds and deploy them in liquid positions and by serving to reduce the credit risk taken by providers of funds to the Group.

The following table lists the Group's exposures by Residual Maturity:

31 DECEMBER 2010 **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	79,336,344	892,053	39,764,163	119,992,560	648,390	377,363	6,839,530	7,865,283	127,857,843
3 months to 1 year	14,113,822	870,135	25,988,932	40,972,889	920,692	533,945	10,645,204	12,099,841	53,072,730
1 year to 5 years	59,283,701	5,759,534	9,459,866	74,503,101	724,934	2,225,889	15,240,928	18,191,751	92,694,852
Over 5 years	26,237,446	1,380,112	11,385,350	39,002,908	-	639,398	-	639,398	39,642,306
Add: Grossing up of interest in suspense & provisions	9,606,265	-	1,512,000	11,118,265	-	-	-	-	11,118,265
Total	**188,577,578**	**8,901,834**	**88,110,311**	**285,589,723**	**2,294,016**	**3,776,595**	**32,725,662**	**38,796,273**	**324,385,996**

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**

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. The Group has controls to ensure a positive perception of the Group and is currently formalising policy to standardize the management approach across 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.

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 Group's earnings and profitability, the reputation risk perspective and the Indemnity Risk perspective. The Group employs, at present, a model to quantify the potential impact resulting from Business Risk.

Capital management policies and stress testing

The Group adheres to the regulations set out by the CBUAE which has confirmed 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 CBUAE, all banks have to prepare a forward-looking capital adequacy assessment and to submit a comprehensive report annually. Whilst the group has a robust capital adequacy assessment, monitoring and reporting process, it is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel III.

The Group's 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.

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. The Group measures two levels of adequacy:

- the capability to withstand unexpected losses at a confidence level of 80% through projected net-income post dividend and provisions, and

- the capability to withstand unexpected losses at a confidence level of 99.9% through its capital base including projected net-income post dividend and provisions, with the latter measure being the key measure for the adequacy assessment

The Economic Capital demand is based on a set of models, with
- 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 correlations and inherent concentration levels. The aggregate capital demand across risk types is the result of a Gaussian Copula model. Recognizing the importance of Islamic Finance, the models and parameter sets employed have been built to address the specific parameters of such portfolios.

The results of the internal capital adequacy assessment process, quarterly the actual assessment as well as the annual two year forward-looking forecast are monitored against the Group's Risk Strategy.

The Group employs an Integrated Stress Testing Framework to quarterly assess the potential implications of adverse financial conditions and the development of key ratios under stressful conditions. The outcomes of the Integrated Stress Testing Framework influence the setting of the bank's risk appetite as part of the bank's periodical Risk Strategy review. Furthermore the outcomes support the development and adjustment of the bank's contingency plans and planning.

The Integrated Stress Testing Framework encompasses:

- the forward-looking assessment of economic scenarios, including potential feedback loops and second round effects,

- the measurement of sensitivities against key risk driver and parameters, as well as

- the analysis of reverse stress tests modeling events that could cause a significant impact on the bank, and provides by that a comprehensive analysis on the potential impact in terms of balance sheet structure, financial performance, capitalization levels and funding profile.

The bank's stress testing process involves key stake holders of Group Finance and the business units in order to develop economically relevant scenarios and include the views of key stakeholders. The results of the quarterly stress testing exercises are discussed at Senior Management and Board level.

In addition, the Group uses the results of the Integrated Stress Testing Framework to assess the outcome and stability of the employed Economic capital models; in order to minimize its Model Risk arising from complex capital and funding modeling.

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

Basic philosophy, methodologies and traditional areas of EIB risk management policies are aligned with the Group's commercial banking risk models, but the unique risk challenges of Islamic banking as well as areas like Sharia non-compliance risk are considered within the 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:

- EIB specific risk strategy development and appetite definition within broader Group Risk Strategy.
- 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 by Group Risk.
- Operational risk framework is managed locally by EIB Operational Risk Committee, and benefits from a dotted line relationship/ 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 with a dotted line relationship.
- 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 two senior executives of the Group, who are also directors on the EIB Board. CRO sits as an invitee on this committee.
- EIB Asset Liability Management Committee (EIB ALCO): led by Group Risk. Members include two senior executives of Group Treasury and three senior executives of Group Risk.
- EIB EXCO: includes observers from Group Information Technology, Group Human Resources as well as the Group's internal audit function.
- EIB Board Audit Sub-Committee: includes director(s) that are the Bank's executive(s).
- EIB Internal Audit: reports to the Group's internal audit function.
- EIB Treasury: EIB's money market and trading requirements are centralized with the Group Treasury.
- IT Security: EIB falls within security ambit of the Group.
- Recovery: EIB uses recoveries department of the Bank to follow-up recovery of legacy portfolio as well as some new loss accounts on corporate side.