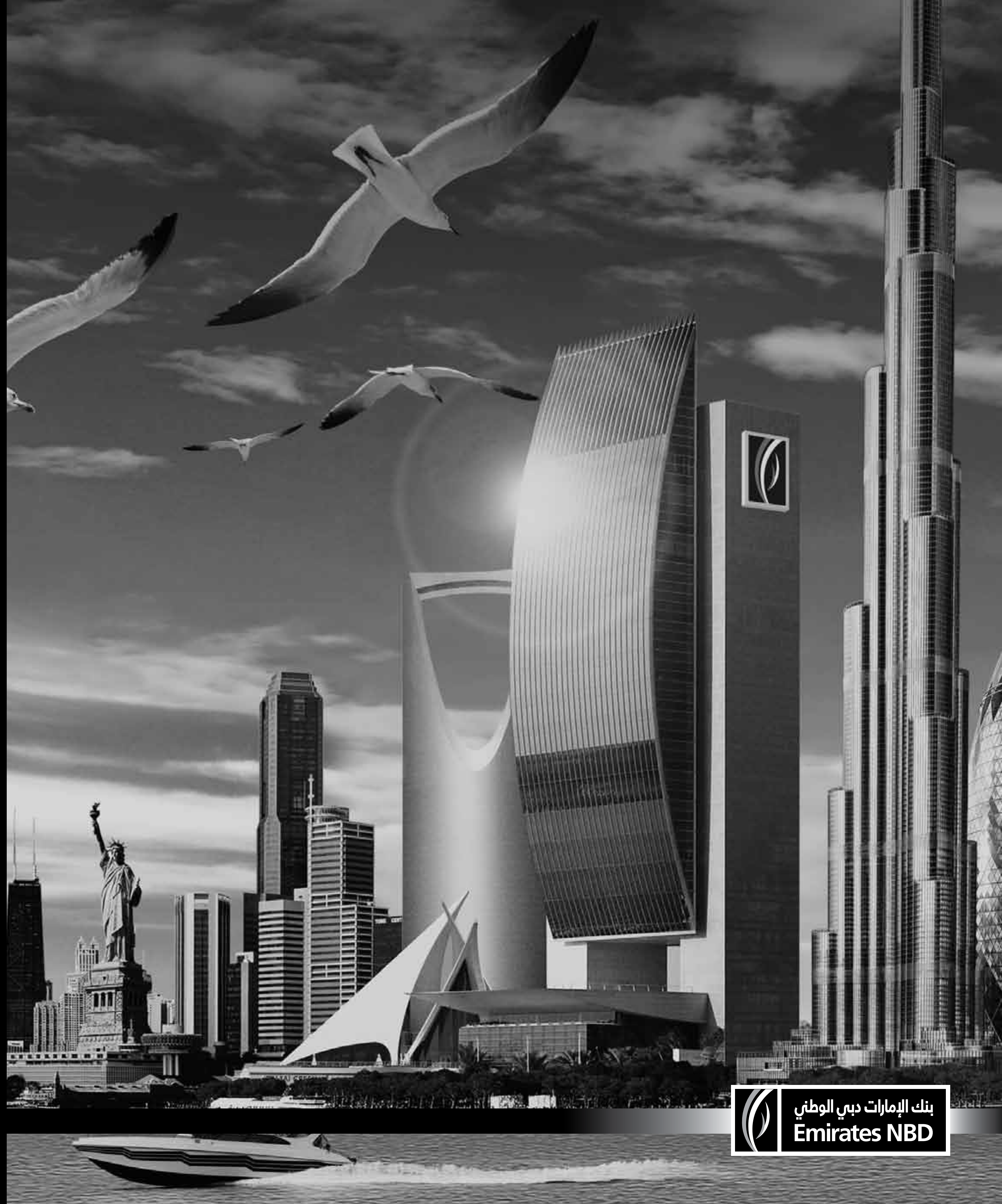
EMIRATES NBD (PJSC)

GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010



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EMIRATES NBD PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of Emirates NBD PJSC ("the Bank") and its subsidiaries (collectively known as "the Group") for the year ended 31 December 2010.

The Bank was incorporated in the UAE on 16 July 2007, pursuant to the approval from the Central Bank of the UAE on 3 July 2007, to grant the Bank a banking licence.

The financial statements are being prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Preparation of Financial Statements

The Group consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of the laws of the U.A.E.

Financial Commentary

The Group reported a consolidated profit (attributable to equity holders) of AED 2,340 million for the year 2010. In response to the current economic climate, the Group has continued to focus on:

- Optimising the balance sheet by proactively managing liquidity which has resulted in a significant improvement in the customer deposit base, de-leveraging and reduction in the asset book;
- Enhancing operating efficiency, driving profitability and enhancing risk management whilst continuing its investment in infrastructure technology and governance;
- Pursuing the growth and expansion strategy through focus on new platforms for growth whilst maintaining focus on existing customer relationships by providing a wide range of products and tailored solutions.

The Group has achieved a reduction of 14% in the overall cost position in 2010 compared to 2009. The overall Group cost improved to AED 3,053 million in 2010 (2009: 3,551 million). The Cost / Income ratio improved by 1.5% in 2010 to 31.4% (2009: 32.9%).

The consolidated profits have been adversely affected by the global downturn in the form of increased provisions.

Group Earning per Share decreased to AED 0.37 (2009: AED 0.58).

The Group achieved a return on average tangible equity of 10.2% (2009: 16.1%) and return on average total assets of 0.8% (2009: 1.2%).

Equity Holders' Funds

Total equity holders' funds as at the end of 2010 stands at AED 23,731 million (excluding Tier 1 capital notes, goodwill and intangibles).

Dividends and Proposed Appropriations

The Directors have recommended a cash dividend of 20% to be paid out of the 2010 profit.

The Directors also propose the following appropriations from retained earnings:

		AED million
Retained earnings as at 01 January 2010		5,989
Group profit for the year (attributable to equity holders)		2,340
Retained earnings available for appropriation		8,329
(a)	Transfer to Legal and statutory reserves	(234)
(b)	2009 Cash dividend of 20% paid during 2010	(1,111)
(c)	Interest on Tier 1 Capital Notes	(262)
(d)	Directors' fees for 2010 *	(22)
Balance of retained earnings as at 31 December 2010		6,700

* Directors' fees include fees paid to directors of Emirates NBD, Emirates Islamic Bank, Emirates NBD Securities, Emirates NBD Asset Management, Emirates Financial Services, Network International, Emirates NBD Properties, Emirates NBD Capital, Emirates Money Consumer Finance, ETFS and Diners Club. It also includes fees for the Board Audit Committee, Board Risk Committee, Board Nomination & Remuneration Committee and Board Credit & Investment Committee.

Appointment of Directors and attendance at Board and Committee meetings during 2010

The Directors for the Company appointed on 24 March 2010 are as below:

H. E. Ahmed Humaid Al Tayer	Chairman
Mr. Abdullah Mohamed Saleh	Vice Chairman (resigned on 01 April 2010)
H. E. Easa Saleh Al Gurg	Vice Chairman (appointed as VC on 28 April 2010)
Mr. Fardan Ali Fardan Al Fardan	Director
H. E. Abdulla Ahmed Lootah	Director
Mr. Khalid Jassim Mohd Bin Kalban	Director
H. E. Hamad Mubarak Buamim	Director
H. E. Abdulla Sultan Mohamed Al Owais	Director
Mr. Hussain Hassan Mirza Al Sayegh	Director
Mr. Butti Obaid Butti Al Mulla	Director
H. E. Khalid Juma Al Majid	Director

Emirates NBD Board (ENBD)	Total No. of meetings : 6	Total Duration : 15:30
ENBD Board Audit Committee (BAC)	Total No. of meetings : 8	Total Duration : 16:05

Mr. Khalid Jassim Mohd Bin Kalban (Chairman of the Committee)
Mr. Fardan Ali Fardan Al Fardan (Member)
H. E. Hamad Mubarak Buamim (Member)
Mr. Hussain Hassan Mirza Al Sayegh (Member)

ENBD Board Nomination & Remuneration Committee (BN&RC) Total No. of meetings : 4 Total Duration : 5:00

Mr. Butti Obaid Butti Al Mulla (Chairman of the Committee)
H. E. Abdulla Ahmed Lootah (Member)
H. E. Abdulla Sultan Mohamed Al Owais (Member)
H. E. Khalid Juma Al Majid (Member)

ENBD Risk Committee (BRC) Total No. of meetings : 4 Total Duration : 10:30

H. E. Hamad Mubarak Buamim (Chairman of the Committee)
H. E. Abdulla Sultan Mohamed Al Owais (Member)
Mr. Hussain Hassan Mirza Al Sayegh (Member)
Mr. Butti Obaid Butti Al Mulla (Member)

ENBD Board Credit & Investment Committee (BCIC) Total No. of meetings : 23 Total Duration : 41:20

H. E. Ahmed Humaid Al Tayer (Chairman of the Committee)
Mr. Fardan Ali Fardan Al Fardan (Member)
H. E. Abdulla Ahmed Lootah (Member)
Mr. Khalid Jassim Mohd Bin Kalban (Member)
H. E. Khalid Juma Al Majid (Member)

Auditors:
KPMG were appointed as auditors of the Emirates NBD Group for 2010 financial year in the Annual General Meeting held on 24 March 2010.

On behalf of the Board

Ahmed Humaid Al Tayer
Chairman
Dubai, UAE
09 February 2011

Independent auditors' report

The Shareholders
Emirates NBD PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Emirates NBD PJSC ("the Bank") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income (comprising a consolidated income statement and a consolidated statement of other comprehensive income), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Bank and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group, and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2010, which may have had a material adverse effect on the business of the Group or its financial position.

Name : **Vijendra Nath Malhotra**
Registration No : 48 B
KPMG
Dubai
United Arab Emirates

09 FEB 2011

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

ASSETS	**Notes**	**2010 AED 000**	**2009 AED 000**
Cash and deposits with Central Bank	4	37,682,944	19,670,666
Due from banks	5	13,850,467	10,046,949
Loans and receivables	6	178,971,313	194,702,689
Islamic financing and investment products	8	18,124,376	19,911,611
Trading securities	9	1,329,907	611,093
Investment securities	10	13,631,203	16,152,520
Investments in associates and joint ventures	12	1,411,687	2,444,550
Positive fair value of derivatives	38	2,445,559	2,819,686
Investment properties	13	1,907,291	1,707,611
Property and equipment	14	2,336,860	2,301,115
Goodwill and intangibles	15	5,924,878	6,045,471
Customer acceptances	43	4,632,810	2,562,869
Other assets	16	3,138,764	2,599,652
Assets held for sale	17	827,829	-
TOTAL ASSETS		**286,215,888**	**281,576,482**
LIABILITIES			
Due to banks	18	18,856,725	29,995,062
Customer deposits	19	162,782,309	157,976,541
Islamic customer deposits	20	37,189,699	23,185,850
Repurchase agreements with banks	21	892,309	3,615,441
Debt issued and other borrowed funds	22	19,415,809	24,072,172
Sukuk payable		1,267,185	1,267,185
Negative fair value of derivatives	38	1,969,346	2,424,224
Customer acceptances	43	4,632,810	2,562,869
Other liabilities	23	4,976,389	4,506,494
Liabilities held for sale	17	483,717	-
TOTAL LIABILITIES		**252,466,298**	**249,605,838**
EQUITY			
Issued capital	24	5,557,775	5,557,775
Treasury shares		(46,175)	(46,175)
Tier I capital notes	25	4,000,000	4,000,000
Share premium reserve	24	12,270,124	12,270,124
Legal and statutory reserve	26	2,198,205	1,964,205
Other reserves	26	2,869,533	2,869,533
Fair value reserve		105,899	(728,772)
Retained earnings		6,700,409	5,989,809
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		33,655,770	31,876,499
Non-controlling interest		93,820	94,145
TOTAL EQUITY		**33,749,590**	**31,970,644**
TOTAL LIABILITIES AND EQUITY		**286,215,888**	**281,576,482**

The notes set out on pages 13 to 107 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 5 and 6.

Chairman Director Chief Executive Officer

09 FEB 2011

بنك الإمارات دبي الوطني
Emirates NBD

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 AED 000	2009 AED 000
Interest income	27	11,288,438	11,972,238
Interest expense	27	(4,922,924)	(5,205,173)
Net interest income		6,365,514	6,767,065
Income from Islamic financing and investment products	28	1,378,311	1,352,155
Distribution to depositors and profit paid to Sukuk holders	29	(948,961)	(707,039)
Net income from Islamic financing and investment products		429,350	645,116
Net interest income and income from Islamic financing and investment products net of distribution to depositors		6,794,864	7,412,181
Fee and commission income		2,596,195	2,574,374
Fee and commission expense		(757,120)	(663,198)
Net fee and commission income	30	1,839,075	1,911,176
Net gain on trading securities	31	52,892	170,096
Other operating income	32	1,034,656	1,300,156
Total operating income		9,721,487	10,793,609
General and administrative expenses	33	(3,053,289)	(3,550,918)
Net impairment loss on financial assets	34	(3,549,967)	(3,634,972)
Total operating expenses		(6,603,256)	(7,185,890)
Operating profit		3,118,231	3,607,719
Amortisation of intangibles	15	(93,860)	(93,860)
Share of loss of associates and joint ventures	12	(664,330)	(161,609)
Taxation charge		(20,858)	(9,718)
Group profit for the year		2,339,183	3,342,532
Attributable to:			
Equity holders of the Group		2,339,508	3,345,836
Non-controlling interest		(325)	(3,304)
Group profit for the year		2,339,183	3,342,532

	Notes	2010 AED	2009 AED
Earnings per share	37	0.37	0.58

The notes set out on pages 13 to 107 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 5 and 6.

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 AED 000	2009 AED 000
Group profit for the year	2,339,183	3,342,532
Other comprehensive income		
Cash flow hedges:		
- Effective portion of changes in fair value	69,525	(294,677)
Fair value reserve (available-for-sale investment securities):		
- Net change in fair value	1,044,995	413,154
- Net amount transferred to income statement	(279,849)	(89,270)
Other comprehensive income for the year	834,671	29,207
Total comprehensive income for the year	3,173,854	3,371,739
Attributable to:		
Equity holders of the Bank	3,174,179	3,375,043
Non-controlling interest	(325)	(3,304)
Total recognised income for the year	3,173,854	3,371,739

The notes set out on pages 13 to 107 form part of these Group consolidated financial statements.
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GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 AED 000	2009 AED 000
OPERATING ACTIVITIES		
Group profit for the year	2,339,183	3,342,532
Adjustment for non cash items		
Impairment loss on loans and receivables	2,563,702	2,636,104
Impairment loss on Islamic financing and investment products	283,319	372,421
Impairment loss on investment securities	285,587	219,031
Impairment loss on due from banks	-	42,147
Impairment loss on investment in associates	360,000	316,000
Amortisation of intangibles	93,860	93,860
Depreciation of property and equipment	271,263	250,264
Share of loss of associates and joint ventures	664,330	161,609
Revaluation of investment properties	215,974	67,718
Operating profit before changes in operating assets and liabilities	7,077,218	7,501,686
Increase in interest free statutory deposits	(1,178,261)	(63,302)
Increase in certificate of deposits with Central Bank	(17,550,000)	(2,425,000)
Decrease in amounts due from banks maturing after 3 months	79,610	1,972,336
Increase/(decrease) in amounts due to banks maturing after 3 months	722,332	(1,284,597)
Net change in other liabilities/other assets	(129,179)	5,096,341
Net change in fair value of derivatives	(11,226)	(121,112)
Increase in customer deposits	18,809,617	18,847,450
Decrease/(increase) in loans and receivables	13,167,674	(9,332,004)
Decrease in Islamic financing and investment products	1,503,916	639,341
Net cash flows from operating activities	**22,491,701**	**20,831,139**
INVESTING ACTIVITIES		
Decrease in trading and investment securities (net of fair value movements)	2,212,988	2,976,486
Decrease in investments in associates and joint ventures	5,896	2,649
Increase in investment properties (net)	(415,654)	(228,159)
Additions to property and equipment (net)	(489,593)	(509,824)
Net cash flows from investing activities	**1,313,637**	**2,241,152**
FINANCING ACTIVITIES		
(Decrease)/increase in deposits under repurchase agreements	(2,723,132)	355,022
Decrease in debt issued and other borrowed funds	(4,656,363)	(4,730,658)
Increase in non-controlling interest	-	673
Issue of tier I capital notes	-	4,000,000
Interest on tier I capital notes	(261,583)	(132,584)
Dividends paid	(1,111,555)	(1,010,505)
Net cash flows used in financing activities	**(8,752,633)**	**(1,518,052)**
Increase in cash and cash equivalents [refer note 47]	**15,052,705**	**21,554,239**

The notes set out on pages 13 to 107 form part of these Group consolidated financial statements.
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GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP										
	Issued capital AED 000	Treasury shares AED 000	Tier I capital notes AED 000	Share premium reserve AED 000	Legal and statutory reserve AED 000	Other reserves AED 000	Fair value reserve AED 000	Retained earnings AED 000	Total AED 000	Non-controlling interest AED 000	Group total AED 000
Balance as at 1 January 2009	5,052,523	(46,175)	-	12,270,124	1,629,205	3,324,385	(757,979)	4,193,062	25,665,145	96,776	25,761,921
Total comprehensive income for the year	-	-	-	-	-	-	29,207	3,345,836	3,375,043	(3,304)	3,371,739
Issue of tier I capital notes	-	-	4,000,000	-	-	-	-	-	4,000,000	-	4,000,000
Interest on tier I capital notes	-	-	-	-	-	-	-	(132,584)	(132,584)	-	(132,584)
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	673	673
Dividends paid	-	-	-	-	-	-	-	(1,010,505)	(1,010,505)	-	(1,010,505)
Transfer to reserves	-	-	-	-	335,000	50,400	-	(385,400)	-	-	-
Directors' fees (refer note 35)	-	-	-	-	-	-	-	(20,600)	(20,600)	-	(20,600)
Issue of bonus shares	505,252	-	-	-	-	(505,252)	-	-	-	-	-
Balance as at 31 December 2009	5,557,775	(46,175)	4,000,000	12,270,124	1,964,205	2,869,533	(728,772)	5,989,809	31,876,499	94,145	31,970,644

In accordance with the Ministry of Economy interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity.

The notes set out on pages 13 to 107 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 5 and 6.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP										
	Issued capital AED 000	Treasury shares AED 000	Tier I capital notes AED 000	Share premium reserve AED 000	Legal and statutory reserve AED 000	Other reserves AED 000	Fair value reserve AED 000	Retained earnings AED 000	Total AED 000	Non-controlling interest AED 000	Group total AED 000
Balance as at 1 January 2010	5,557,775	(46,175)	4,000,000	12,270,124	1,964,205	2,869,533	(728,772)	5,989,809	31,876,499	94,145	31,970,644
Total comprehensive income for the year	-	-	-	-	-	-	834,671	2,339,508	3,174,179	(325)	3,173,854
Interest on tier I capital notes	-	-	-	-	-	-	-	(261,583)	(261,583)	-	(261,583)
Dividends paid	-	-	-	-	-	-	-	(1,111,555)	(1,111,555)	-	(1,111,555)
Transfer to reserves	-	-	-	-	234,000	-	-	(234,000)	-	-	-
Directors' fees (refer note 35)		-	-	-	-	-	-	(21,770)	(21,770)	-	(21,770)
Balance as at 31 December 2010	5,557,775	(46,175)	4,000,000	12,270,124	2,198,205	2,869,533	105,899	6,700,409	33,655,770	93,820	33,749,590

In accordance with the Ministry of Economy interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity.

The notes set out on pages 13 to 107 form part of these Group consolidated financial statements.
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NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1 LEGAL STATUS AND ACTIVITIES

Emirates NBD PJSC, (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 was incorporated principally to give effect to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"). The merger became effective from 16 October 2007, while the legal merger was completed on 4 February 2010. Post this date, EBI and NBD as banks, ceased to exist.

The consolidated financial statements for the year ended 31 December 2010 comprise the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

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. For details of activities of subsidiaries, refer to note 41.

The registered address of the bank is Post Box 777, Dubai, United Arab Emirates ("UAE").

The ultimate parent company of the Group is Investment Corporation of Dubai, a company in which the Government of Dubai is the majority shareholder.

2 BASIS OF PREPARATION

(a) Statement of compliance:

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of the laws of the U.A.E.

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

These Group consolidated financial statements have been approved for issue by the Board of Directors on 9 February 2011.

(b) Basis of measurement:

The Group consolidated financial statements have been prepared on historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments classified as held for trading and at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged;
- Liabilities for cash settled share based payments are measured at fair value; and
- Investment properties are measured at fair value.

2 BASIS OF PREPARATION (continued)

(b) Basis of measurement (continued):

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements, are disclosed in Note 3 (a).

(c) Presentation of financial statements:

The Group applies revised IAS 1 Presentation of Financial Statements, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner related changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are the entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. A subsidiary is excluded from consolidation from the date control ceases.

Subsidiaries are consolidated on a line-by-line basis and the non-controlling interest's share in the results for the year and for their share of the net assets of the subsidiaries are accounted for separately. The effects of intra group transactions are eliminated in preparing the Group consolidated financial statements.

(ii) Special Purpose Entities

Special Purpose Entities (SPEs) are entities that are created to accomplish a well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

2 BASIS OF PREPARATION (continued)

(d) Basis of consolidation (continued)

(ii) Special Purpose Entities (continued)

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and SPE. Day-to-day changes in the market conditions normally do not lead to a reassessment of control.

Information about the Group's securitisation activities is set out in note 7.

(iii) Associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are stated on an equity basis at cost plus the Group's share of the associate's net assets post acquisition. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any such changes and discloses this, where applicable, in the statement of changes in equity.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(iv) Joint ventures

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group recognises its interest in joint ventures using the equity method of accounting.

Under the equity method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. The income statement reflects the share of the results of operations of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any such changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the joint venture and the Group are identical and the joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(v) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the Group consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2 BASIS OF PREPARATION (continued)

(e) Accounting for business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

(i) Acquisitions on or after 1 January 2009

For acquisitions on or after 1 January 2009, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Acquisitions between 1 January 2003 and 1 January 2009

For acquisitions between 1 January 2003 and 1 January 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recongised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Transaction costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with business combinations were capitalised as part of the cost of the acquisitions.

(iii) Accounting for acquisitions of non-controlling interests

The Group has adopted early IAS 27 Consolidated and Separate Financial Statements (2008) for acquisitions of non-controlling interests occurring in the financial year starting 1 January 2009.

Under the new accounting policy acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill arising on the acquisition of a non-controlling interest in a subsidiary was recognised, and represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired as at the date of the exchange.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant items where the use of estimates and judgments are required are outlined below:

(i) Allowances for impairment of loans and receivables, Islamic financing and investment products

The Group reviews its loans and receivables portfolio, Islamic financing and investment products to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans or Islamic financing and investment products. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually significant loans and receivables and Islamic financing and investment products, the Group also makes a collective impairment allowance to recognise that at any reporting date, there will be an amount of loans and receivables, Islamic financing and investment products which are impaired even though a specific trigger point for recognition of the loss has not yet been evidenced (known as the "emergence period').

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non market factors.

3 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) Use of estimates (continued)

(iv) Held-to-maturity investment securities

The Group follows the guidance of IAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity. In the event the Group fails to keep these investments to maturity other than for specific circumstances [those mentioned in note 3(d)(i)1], it will be required to reclassify the entire class as available-for-sale and the Group will be prevented from classifying investment securities as held-to-maturity for the current and the following two financial years.

(b) Revenue recognition

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Commission and fee income is accounted for on an accrual basis. Dividend income is recognised when the Group's right to receive the dividend is established. Recoveries in respect of loans and receivables that have been identified as fully impaired are accounted for on a cash receipt basis.

(c) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(d) Financial instruments

(i) Classification

▪ Trading securities:

Trading securities are initially recorded at fair value. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise. Interest earned and dividends received are included in interest income and other operating income respectively.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(i) Classification (continued)

▪ Investment securities:

(1) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets, with fixed or determinable payments and fixed maturity, that the Group has the intent and ability to hold to maturity. These include certain debt instruments.

Held-to-maturity ("HTM") investments are carried at amortised cost (less impairment, if any).

Sale of HTM assets is allowed only under the following circumstances:

- The investment is close enough to maturity as to have no impact on fair value;
- The principal is substantially received;
- Isolated events beyond the Group's control;
- Significant credit deterioration;
- Major business combination or disposal; or
- Increase in regulatory capital requirements.

(2) Available-for-sale

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale (AFS) financial assets may be freely sold or hedged. All AFS financial assets are measured at fair value. The differences between cost and fair value is taken to equity and recognised as a separate component in the statement of financial position, except in the case of impairment where the cumulative loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to equity, is transferred to the income statement.

(3) Designated at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(i) Classification (continued)

- Loans and receivables:

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

  Loans and receivables are carried at amortised cost (less impairment) and include:

  - Originated loans and syndicated loans funded on origination;
  - Other debt securities acquired (purchased) by the Group either from the issuer or another source, provided that they are not quoted in an active market.

(ii) Recognition

Financial assets and liabilities are recognised on the statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated at fair value through profit or loss or available-for-sale assets are recognised. Loans and receivables are recognised on the day they are transferred to or acquired by the Group.

(iii) Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any interest in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(iv) Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

(v) Embedded derivatives

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

(vi) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account the current creditworthiness of the counterparties.

(vii) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(viii) Impairment

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

Loans and receivables are presented net of allowances for impairment. The recoverable amount of individually significant loans and receivables is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted. Impairment allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances, to reduce these loans and receivables to their recoverable amounts. Collective impairment allowances are maintained to reflect incurred but not yet individually identified losses of the remaining loan portfolio. Increases in the impairment allowances are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off.

In the case of an investment security classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale investment security, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment security previously recognised in the income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity investment securities are not reversed through the income statement.

If in a subsequent period, the fair value of an available-for-sale debt instrument increases which can be linked objectively to an event occurring after the write down, the write-down or impairment allowance is reversed through the income statement.

(e) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the Group consolidated income statement. Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to other reserves (exchange retranslation differences).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 years
Motor vehicles	3 years

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

(g) Income taxes and deferred taxation

Income tax payable on taxable profits, based on the applicable tax laws in each overseas jurisdiction where the Group operates, is recognised as an expense in the period in which such taxable profits arise.

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to realise or the liability is expected to settle.

Deferred tax assets are reviewed at the end of each year to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investment properties

The Group holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in 'Other operating income' in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in 'Other operating income' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease of a significant portion of the property to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

(i) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortised cost.

(j) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Employee benefits (continued)

(iii) Employees long term incentive plan ("LTIP")

With effect from 1 April 2006, Emirates NBD has introduced two Long Term Incentive Plans for selected key employees. These are cash settled share based incentive plans wherein participants are awarded with Long Term Incentive (LTI) units which will be converted into cash after vesting.

The fair value of the amount payable to employees in respect of LTI units which are settled in cash is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The amount recognised as an expense is adjusted to reflect the actual number of LTI units that vest. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff-related expense in the Group consolidated income statement.

(k) Hedging instruments

Hedging instruments include futures, forwards and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rates and currency risk.

Where there is a hedging relationship as defined by IAS 39 between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments [refer note 3 (a) (ii)].

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge); or,
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Hedging Instruments (continued)

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances with the Central Bank of the UAE and balances with banks and financial institutions with an original maturity of three months or less, less balances due to banks and financial institutions with an original maturity of three months or less.

(m) Offsetting financial instruments

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

(n) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Group consolidated income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in net trading income.

(p) Leases

The total payments made under operating leases, such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

(q) Islamic financing and investment products

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istissna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement or substantially all the risks and returns related to the ownership.

Mudaraba

An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-Ul-Mal would bear the loss of his funds while the Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Islamic financing and investment products (continued)

(i) Definitions (continued)

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istissna'a

Istissna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istissna'a cost) are accounted for on a time proportion basis.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the Group consolidated income statement.

Acquisitions of non-controlling interest

Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Capitalised software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three to five years.

(iii) Other intangible assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite or indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangibles.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(t) Earnings per share

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for interest expense on tier I capital notes) of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

(u) Assets held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be principally recovered primarily through a sale transaction that is highly probable to complete within one year from the date of classification, rather than through continuing use. Such assets and liabilities are not netted. In the period where an asset or liability is recognised for the first time as held for sale, these assets and liabilities are shown separately on the face of the statement of financial position. However, the statement of financial position for the comparative prior period presented is not restated.

These assets and liabilities held for sale are measured in line with the Group's accounting policies.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010 with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective date
IFRS 9 Financial Instruments	This standard, issued as a replacement to IAS 39, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. It also includes the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities.	1 January 2013
IAS 24 Related Party Disclosures (revised 2009)	This standard amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.	1 January 2011
Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction	These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.	1 January 2011
Improvements to IFRS 2010 – IFRIC 13 Customer Loyalty Programmes	The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.	1 January 2011

The above and other new standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date.

4 CASH AND DEPOSITS WITH CENTRAL BANK

	2010 AED 000	2009 AED 000
Cash	1,539,825	2,255,808
Interest free statutory and special deposits with Central Bank	11,893,119	10,714,858
Interest bearing certificates of deposit with Central Bank	24,250,000	6,700,000
	37,682,944	19,670,666

The reserve requirements are kept with the Central Bank of the UAE in AED and US Dollar, are not available for use in the Group's day to day operations and cannot be withdrawn without the Central Bank of the UAE's approval. The level of reserve required changes every month in accordance with the Central Bank of the UAE's directives.

5 DUE FROM BANKS

31 December 2010	Local AED 000	Foreign AED 000	Total AED 000
Time loans	274,656	11,188,649	11,463,305
Overnight, call and short notice	54,794	2,359,858	2,414,652
Gross due from banks	329,450	13,548,507	13,877,957
Specific allowances for impairment	-	(27,490)	(27,490)
	329,450	13,521,017	13,850,467

31 December 2009	Local AED 000	Foreign AED 000	Total AED 000
Time loans	396,399	4,178,460	4,574,859
Overnight, call and short notice	163,376	5,357,861	5,521,237
Gross due from banks	559,775	9,536,321	10,096,096
Specific allowances for impairment	-	(49,147)	(49,147)
	559,775	9,487,174	10,046,949

The average yield on these placements was 1.9 % p.a. (2009: 2.3% p.a.)

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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6 LOANS AND RECEIVABLES

(a) By type	2010 AED 000	2009 AED 000
Overdrafts	68,175,059	70,472,893
Time loans	110,659,870	120,671,472
Loans against trust receipts	2,564,316	2,717,347
Bills discounted	1,110,205	1,511,562
Credit card receivables	2,611,255	2,386,520
Others	690,773	783,395
Gross loans and receivables	185,811,478	198,543,189
Other debt instruments	659,562	1,568,821
Total loans and receivables	186,471,040	200,112,010
Less: Allowances for impairment	(7,499,727)	(5,409,321)
	178,971,313	194,702,689
Total of impaired loans and receivables	18,902,512	5,148,407

Included in loans and receivables are other debt securities of AED Nil (2009: AED 159 million) that have been pledged under repurchase agreements [refer note 21].

(b) By segment	2010 AED 000	2009 AED 000
Corporate banking	158,944,840	169,242,252
Consumer banking	17,298,906	22,185,886
Treasury	394,623	931,294
Others	2,332,944	2,343,257
	178,971,313	194,702,689

6 LOANS AND RECEIVABLES (continued)

Movement in allowances for specific impairment	2010 AED 000	2009 AED 000
Balance as at 1 January	3,745,448	2,541,597
Allowances for impairment made during the year	2,365,583	1,713,518
Write back /recoveries made during the year	(88,795)	(170,414)
Amount transferred from Islamic financing	-	34,058
Amounts written off during the year	(473,297)	(373,311)
Balance as at 31 December	5,548,939	3,745,448

Movement in allowances for collective impairment	2010 AED 000	2009 AED 000
Balance as at 1 January	1,663,873	570,873
Allowances for impairment made during the year	531,915	1,093,000
Write back made during the year	(245,000)	-
Balance as at 31 December	1,950,788	1,663,873
	7,499,727	5,409,321

7 LOANS SECURITISATION

(i) Incorporation of Emirates NBD Auto Finance Limited and Emirates NBD Auto Financing Limited for asset securitisation.

On 10 September 2009, Emirates NBD Auto Finance Limited ("APC") was incorporated under the Companies (Jersey) Law, 1991 and registered in Jersey as a limited company. The principal activity of the Company is to purchase portfolios of loans through the issuance of notes.

On 10 September 2009, Emirates NBD Auto Financing Limited ("Repack") was incorporated under the Companies (Jersey) Law, 1991 and registered in Jersey as a limited company. The principal activity of the Company is to invest in notes and securities through the issuance of notes.

On 10 August 2010, the Group transferred retail auto loans and receivables amounting to AED 968.5 million to APC (as at 31 December 2010). However, the Group has retained the credit risk associated with the transferred assets. Due to retention of the risks and rewards of the transferred assets, the Group continues to recognize these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 857 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost. Since the Group is exposed to a majority of ownership risks and rewards of these special purpose entities (SPE), these SPEs are consolidated in compliance with SIC Interpretation 12 – Consolidation – special purpose entities.

(ii) Consolidation of the Group's Tranche of Emblem Finance Company No. 2 Limited (multi-seller SPE) for asset securitisation.

On 22 November 2010, the Group has transferred corporate loans and receivables amounting to AED 2,193 million (as at 31 December 2010) to Emblem Finance Company No. 2 Limited (multi-seller SPE). However, the Group has retained substantially all of the credit risk & rewards associated with the transferred assets and hence the Group continues to recognize these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 2,193 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost.

Since the Group is exposed to a majority of ownership risks and rewards of this section of the multi seller SPE, the Group's tranche in the SPE is consolidated in compliance with SIC Interpretation 12 – Consolidation – special purpose entities.

8 ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2010 AED 000	2009 AED 000
Murabaha	4,895,949	5,264,249
Ijara	6,407,413	6,627,114
Sukuk funds	1,285,550	1,285,550
Credit card receivables	531,474	529,520
Wakala	3,499,905	3,804,343
Istissna'a	1,570,624	1,946,817
Others	1,332,913	1,677,884
Total Islamic financing and investment products	19,523,828	21,135,477
Less: Deferred income	(577,119)	(684,852)
Less: Allowances for impairment	(822,333)	(539,014)
	18,124,376	19,911,611
Total of impaired Islamic financing and investment products	1,659,860	682,194

Movement in allowances for specific impairment	2010 AED 000	2009 AED 000
Balance as at 1 January	344,966	201,320
Allowances for impairment made during the year	264,620	189,899
Recoveries made during the year	(29,101)	(11,526)
Amount transferred to loans and receivables	-	(34,058)
Amounts written off during the year	-	(669)
Balance as at 31 December	580,485	344,966
Movement in allowances for collective impairment		
Balance as at 1 January	194,048	-
Allowances for impairment made during the year	47,800	194,048
Balance as at 31 December	241,848	194,048
	822,333	539,014

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9 TRADING SECURITIES

31 December 2010	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Government bonds	187,101	-	-	187,101
Corporate bonds	772,424	46,273	186,762	1,005,459
Equity	114,035	12,177	11,135	137,347
	1,073,560	58,450	197,897	1,329,907

31 December 2009	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Government bonds	142,942	-	-	142,942
Corporate bonds	349,045	-	-	349,045
Equity	118,860	-	246	119,106
	610,847	-	246	611,093

Reclassifications out of trading securities

In 2008, pursuant to the amendments to IAS 39 and IFRS 7 (described in note 2(c)), the Group reclassified certain trading securities to available-for-sale investment securities. The Group identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of selling in the short term. The Group determined that the context of the deterioration of the financial markets during the second half of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. In addition, some trading securities purchased after 1 July 2008 were subsequently identified for reclassification. The table below sets out the trading securities reclassified and their carrying and fair values.

	1 July 2008 AED 000		31 December 2009 AED 000		31 December 2010 AED 000	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to available-for-sale investment securities	993,491	993,491	541,239	541,239	378,518	378,518
	993,491	993,491	541,239	541,239	378,518	378,518

9 TRADING SECURITIES (continued)

The table below sets out the amounts recognised in the income statement and equity during 2010 in respect of financial assets reclassified out of trading securities into available-for-sale investment securities:

	Income statement AED 000	Equity AED 000
Period before reclassification (30 June 2008)		
Net trading loss	(16,661)	-
	(16,661)	-
Period after reclassification (1 July 2008 – 31 December 2010)		
Interest income	80,080	-
Net change in fair value	-	(24,404)
	80,080	(24,404)

The table below sets out the amounts that would have been recognised during 2010, had the reclassifications not been made:

	2010 AED 000
Net trading profit	15,137

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10 INVESTMENT SECURITIES

31 December 2010	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	55,095	114,389	-	169,484
Corporate bonds	18,365	165,135	34,643	218,143
	73,460	279,524	34,643	387,627
AVAILABLE-FOR-SALE:				
Government bonds	1,121,929	841,548	701,662	2,665,139
Corporate bonds	2,585,558	793,017	2,441,473	5,820,048
Equity	509,208	848,785	847,576	2,205,569
Others	228,836	297,528	970,288	1,496,652
	4,445,531	2,780,878	4,960,999	12,187,408
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Equity	47,974	98,845	-	146,819
Others	765,372	2,377	141,600	909,349
	813,346	101,222	141,600	1,056,168
	5,332,337	3,161,624	5,137,242	13,631,203

10 INVESTMENT SECURITIES (continued)

31 December 2009	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	55,095	99,714	-	154,809
Corporate bonds	97,947	251,141	71,699	420,787
	153,042	350,855	71,699	575,596
AVAILABLE-FOR-SALE:				
Government bonds	637,663	-	1,987,812	2,625,475
Corporate bonds	2,854,539	713,796	3,764,538	7,332,873
Equity	554,519	1,403,061	831,847	2,789,427
Others	86,633	293,952	1,020,072	1,400,657
	4,133,354	2,410,809	7,604,269	14,148,432
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Equity	43,339	110,396	-	153,735
Hybrid instruments	-	-	28,704	28,704
Others	855,139	1,427	389,487	1,246,053
	898,478	111,823	418,191	1,428,492
	5,184,874	2,873,487	8,094,159	16,152,520

Included in available-for-sale investment securities is an amount of AED 892 million (2009: AED 3,456 million), pledged under repurchase agreements with banks [refer note 21].

Investment securities include investments in real estate funds as follows:

	2010 AED 000	2009 AED 000
Designated at fair value through profit or loss	204,599	284,852
Available-for-sale	982,429	1,006,782
	1,187,028	1,291,634

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

11 INVESTMENT IN / SALE OF SUBSIDIARIES

(i) Business Combination of Emirates International Securities and NBD Securities LLC – ("Common Control")

On 8 November 2009, Emirates International Securities LLC ("EIS"), a subsidiary of the Group, received regulatory approval to acquire 100% stake in NBD Securities LLC, another subsidiary of the Group and changed its name to Emirates NBD Securities LLC. The acquisition has been accounted for as a common control transaction at carrying amount.

On 21 November 2009, NBD Securities LLC transferred all its assets and liabilities to EIS to complete the acquisition.

(ii) Liquidation of Al Watani Al Islami PJSC

During the month of September 2009, Al Watani Al Islami PJSC, a subsidiary of the Group, was liquidated and the assets and liabilities have been settled.

12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2010 AED 000	2009 AED 000
Investments in associates	1,411,687	2,441,993
Investments in joint ventures	-	2,557
Total	1,411,687	2,444,550

Movement in investments in associates:

Movements in the carrying values of investments in associates during the year are as follows:

	2010 AED 000	2009 AED 000
Balance as at 1 January	2,441,993	2,924,658
Share of loss	(664,410)	(162,199)
Impairment made during the year	(360,000)	(316,000)
Dividends	(5,896)	(4,466)
Balance as at 31 December	1,411,687	2,441,993

Aggregated financial information of the material associates is assets of AED 16,068 million (2009: AED 18,036 million), liabilities of AED 11,608 million (2009: AED 12,255 million), revenue of AED 3,008 million (2009: AED 4,454 million) and loss of AED 1,321 million (2009: AED 465 million). At the Board approval date, equity accounting was applied using management information available at the time. Subsequent changes are not considered material.

12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Joint ventures:

On 28 January 2009, Network International LLC ("NI"), a subsidiary of the Group, set up Sinnad W.L.L., a joint venture with Bahrain Electronic Network, to provide third party ATM and card processing services for banks in Bahrain and the Gulf Cooperation Council States. NI holds 49% of the share capital and exercises joint control of the management of the company.

Movement in investments in joint ventures:

Movements in the carrying values of investments in joint ventures during the year are as follows:

	2010 AED 000	2009 AED 000
Balance as at 1 January	2,557	150
Share of profits	80	590
Setup of a joint venture	-	1,817
Less: assets held for sale	(2,637)	-
Balance as at 31 December	-	2,557

13 INVESTMENT PROPERTIES

The movement in investment properties during the year is as follows:

	2010 AED 000	2009 AED 000
Balance as at 1 January	1,707,611	1,547,169
Additions	427,767	319,087
Transfer to fixed assets not commissioned	(600)	(90,927)
Sale of investment properties	(11,513)	-
Fair value revaluation loss	(215,974)	(67,718)
Balance as at 31 December	1,907,291	1,707,611

Investment properties comprises of Freehold land and building. Rental income from investment properties recorded in other income is AED 19.2 million (2009: AED 18.2 million).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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14 PROPERTY AND EQUIPMENT

	Freehold land and property AED 000	Leasehold premises and improvements AED 000	Others AED 000	Fixed assets not commissioned AED 000	Total AED 000
COST					
As at 1 January 2010	1,048,376	280,018	1,090,432	707,388	3,126,214
Additions	53,577	33,423	167,621	258,581	513,202
Transfers	4,381	29,707	107,921	(142,009)	-
Disposals	(4,243)	(7,069)	(148,889)	(12,594)	(172,795)
Transfers to assets held for sale	(6,531)	(7,641)	(285,950)	(12,209)	(312,331)
As at 31 December 2010	1,095,560	328,438	931,135	799,157	3,154,290
ACCUMULATED DEPRECIATION					
As at 1 January 2010	156,560	131,097	537,442	-	825,099
Charge for the year	43,421	44,798	183,044	-	271,263
Disposals	-	(5,193)	(143,993)	-	(149,186)
Transfers to assets held for sale	-	(2,551)	(127,195)	-	(129,746)
As at 31 December 2010	199,981	168,151	449,298	-	817,430
Net book value as at 31 December 2010	895,579	160,287	481,837	799,157	2,336,860

14 PROPERTY AND EQUIPMENT (continued)

	Freehold land and property	Leasehold premises and improvements	Others	Fixed assets not commissioned	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
COST					
As at 1 January 2009	918,952	212,290	660,813	842,553	2,634,608
Additions	14,031	21,503	126,190	359,779	521,503
Transfers	115,393	58,453	312,822	(486,668)	-
Disposals	-	(12,228)	(9,393)	(8,276)	(29,897)
As at 31 December 2009	1,048,376	280,018	1,090,432	707,388	3,126,214
ACCUMULATED DEPRECIATION					
As at 1 January 2009	109,260	102,025	381,768	-	593,053
Charge for the year	47,300	39,743	163,221	-	250,264
Disposals	-	(10,671)	(7,547)	-	(18,218)
As at 31 December 2009	156,560	131,097	537,442	-	825,099
Net book value as at 31 December 2009	891,816	148,921	552,990	707,388	2,301,115

Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development, and are not ready for use.

15 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles			Total
		Software	Customer relationships	Core deposit intangibles	
31 December 2010	AED 000	AED 000	AED 000	AED 000	AED 000
Cost					
Balance as at 1 January	5,527,578	9,281	157,490	564,760	6,259,109
Transfer to assets held for sale	(26,733)	-	-	-	(26,733)
	5,500,845	9,281	157,490	564,760	6,232,376
Amortisation and impairment					
Balance as at 1 January	4,903	5,735	69,000	134,000	213,638
Amortisation and impairment for the year	-	1,860	31,000	61,000	93,860
Balance as at 31 December	4,903	7,595	100,000	195,000	307,498
NET	5,495,942	1,686	57,490	369,760	5,924,878
31 December 2009					
Cost	5,527,578	9,281	157,490	564,760	6,259,109
Amortisation and impairment	4,903	5,735	69,000	134,000	213,638
NET	5,522,675	3,546	88,490	430,760	6,045,471

Impairment testing of goodwill

The goodwill acquired through business combinations with indefinite lives is reviewed annually for impairment by comparing the recoverable amount based on value-in-use calculations for cash generating units (CGUs) to which goodwill has been allocated with its carrying value.

The goodwill has been allocated to three individual cash-generating units, which are also reportable segments as follows:

- Corporate banking
- Consumer banking
- Treasury

15 GOODWILL AND INTANGIBLES (continued)

Key assumptions used in impairment testing for significant goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period.

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the projection period;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product ("GDP"); and
- Local inflation rates.

Interest margins

Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed ("ROCE") required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital ("WACC").

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

At 31 December 2010, the goodwill allocated to Corporate Banking was AED 3,589 million (2009: AED 3,589 million), the goodwill allocated to Consumer Banking was AED 1,700 million (2009: AED 1,700 million) and the goodwill allocated to Treasury was AED 206 million (2009: AED 206 million).

Corporate Banking

The recoverable amount of Corporate Banking determined on the basis of value in use calculation uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 13.4%. The recoverable amount exceeded the carrying amount by AED 21,370 million. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by AED 2,066 million and AED 1,225 million respectively.

Consumer Banking

The recoverable amount of Consumer Banking determined on the basis of value in use calculation uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 13.4%. The recoverable amount exceeded the carrying amount by AED 19,418 million. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by AED 1,748 million and AED 1,037 million respectively.

15 GOODWILL AND INTANGIBLES (continued)

Treasury

The recoverable amount of Treasury determined on the basis of value in use calculation uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 13.4%. The recoverable amount exceeded the carrying amount by AED 3,370 million. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by AED 296 million and AED 176 million respectively.

Intangibles:

Acquired intangibles are recognised at their "fair value" upon initial recognition. "Fair value" is defined as 'the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction'.

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles are amortised using the straight-line method over the useful life of the asset, which is estimated to be between 5 and 11 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

16 OTHER ASSETS

	2010 AED 000	2009 AED 000
Accrued interest receivable	1,210,117	1,009,963
Prepayments and other advances	278,198	330,736
Sundry debtors and other receivables	496,005	606,239
Others	1,154,444	652,714
	3,138,764	2,599,652

17 ASSETS AND LIABILITIES HELD FOR SALE

The assets and liabilities of Network International L.L.C, a subsidiary of the Group, have been disclosed as assets held for sale under IFRS 5 – Non-current assets held for sale and discontinued operations. The gross assets and liabilities of Network International L.L.C are represented as available for sale in the Group's consolidated financial statements following signing of the share purchase agreement in respect of the sale of 49% shareholding of Network International L.L.C by Emirates NBD to a strategic investor and intended joint control by the two shareholders in future. Efforts to complete the sale of the division have commenced and the sale is expected to be closed by 31 March 2011.

Assets held for sale	2010 AED 000
Due from banks	24,934
Investment securities	69,073
Investments in associates and joint ventures	2,637
Property and equipment	182,585
Goodwill and intangibles	26,733
Other assets	521,867
	827,829

Liabilities held for sale	2010 AED 000
Due to banks	44
Other liabilities	483,673
	483,717

18 DUE TO BANKS

	2010 AED 000	2009 AED 000
Demand and call deposits	3,426,843	1,843,559
Balances with correspondent banks	1,016,882	1,049,627
Time and other deposits	14,413,000	27,101,876
	18,856,725	29,995,062

The interest rates paid on the above averaged 1.7 % p.a. (2009: 1.6% p.a.).

19 CUSTOMER DEPOSITS

	2010 AED 000	2009 AED 000
Demand, call and short notice	47,201,271	44,261,193
Time	105,558,280	106,075,856
Savings	8,726,815	6,026,492
Others	1,295,943	1,613,000
	162,782,309	157,976,541

The interest rates paid on the above deposits averaged 2.3 % p.a. in 2010 (2009: 2% p.a.).

Customer deposits include AED 11,502 million (2009: AED 11,502 million) pertaining to facilities received from the Ministry of Finance of the UAE in December 2009.

20 ISLAMIC CUSTOMER DEPOSITS

	2010 AED 000	2009 AED 000
Demand, call and short notice	3,809,325	4,073,039
Time	31,894,135	17,177,694
Savings	1,377,822	1,739,459
Others	108,417	195,658
	37,189,699	23,185,850

Islamic customer deposits include AED 1,082 million (2009: AED 1,082 million) pertaining to facilities received from the Ministry of Finance of the UAE in December 2009.

21 REPURCHASE AGREEMENTS WITH BANKS

Deposits under repurchase agreements represent borrowings from banks and are secured by a portfolio of investment securities and loans and receivables as follows:

	2010 AED 000	2009 AED 000
Available-for-sale investment securities	892,309	3,455,963
Loans and receivables	-	159,478
	892,309	3,615,441

22 DEBT ISSUED AND OTHER BORROWED FUNDS

	2010 AED 000	2009 AED 000
Medium term note programme	10,856,743	18,563,422
Syndicated borrowings from banks	5,508,750	5,508,750
Borrowings raised from loan securitisations (refer note 7)	3,050,316	-
	19,415,809	24,072,172

The Group has outstanding medium term borrowings totalling AED 19,416 million (2009: AED 24,072 million) which will be repaid as follows:

	2010 AED million	2009 AED million
2010	-	7,239
2011	3,799	4,090
2012	8,051	7,760
2013	1,036	1,052
2014	244	220
2015	2,193	
2016	1,892	2,332
2018	1,344	1,379
2020	857	-
	19,416	24,072

The interest rate paid on the above averaged 1.6 % p.a. in 2010 (2009: 2.5% p.a.).

22 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

The medium term note programme includes the subordinated notes issued with the following terms and conditions:

	2010 AED million	2009 AED million
US$500 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2016	1,273	1,435
US$500 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2016	619	897
AED 1,000 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2018	904	939
AED 440 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2018	440	440
	3,236	3,711

The above liabilities will, in the event of the winding up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during 2010 and 2009.

23 OTHER LIABILITIES

	2010 AED 000	2009 AED 000
Accrued interest payable	1,119,115	1,055,737
Profit payable to Islamic depositors	327,050	213,875
Managers' cheques	631,076	402,011
Trade and other payables	726,975	636,564
Staff related liabilities	667,222	746,366
Provision for taxation [refer note 36]	11,791	1,578
Others	1,493,160	1,450,363
	4,976,389	4,506,494

24 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 5,557,774,724 ordinary shares of AED 1 each (2009: 5,557,774,724 ordinary shares).

Movement of ordinary shares in issue during the year is made up as follows:

	Number of shares	Share capital AED 000	Share premium reserve AED 000
As at 1 January 2009	5,052,522,477	5,052,523	12,270,124
Issue of bonus shares	505,252,247	505,252	-
As at 31 December 2009	5,557,774,724	5,557,775	12,270,124
As at 1 January 2010	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2010	5,557,774,724	5,557,775	12,270,124

At the forthcoming Annual General Meeting which will be held on 23 March 2011, the Group is proposing a cash dividend of AED 0.20 per share for the year (2009: AED 0.20 per share) amounting to AED 1,112 million (2009: AED 1,112 million).

25 TIER I CAPITAL NOTES

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.

26 RESERVES

In accordance with the Bank's Articles of Association, and in compliance with Article 82 of Union Law No.10 of 1980, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. A transfer of AED 234 million (2009: AED 335 million) has been made to the legal reserve in compliance with the provisions of the Bank's Articles of Association. 10% of the profit is also transferred to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2010	1,964,205	555,800	2,313,733	4,833,738
Transfer from retained earnings	234,000	-	-	234,000
At 31 December 2010	2,198,205	555,800	2,313,733	5,067,738

Prior year comparatives are shown in the statement of changes in equity.

27 NET INTEREST INCOME

	2010 AED 000	2009 AED 000
Interest income		
Loans and receivables to customers	10,475,653	11,028,914
Loans and receivables to banks	218,549	173,065
Other debt securities	11,898	39,391
Available-for-sale investment securities	257,596	406,556
Held to maturity investment securities	4,641	7,853
Trading securities and designated at fair value through profit or loss investment securities	52,298	19,050
Others	267,803	297,409
Total interest income	11,288,438	11,972,238
Interest expense		
Deposits from customers	4,551,929	4,169,341
Borrowings from banks and financial institutions	333,850	911,817
Borrowings under commercial paper	2,464	40,617
Securities lent and repurchase agreements	17,424	6,346
Others	17,257	77,052
Total interest expense	4,922,924	5,205,173
	6,365,514	6,767,065

Included in various lines under interest income for the year 31 December 2010 is a total of AED 6 million (2009: AED 6 million) accrued on impaired financial assets.

28 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2010 AED 000	2009 AED 000
Murabaha	323,780	396,459
Ijara	563,443	528,267
Istissna'a	50,444	71,869
Sukuk funds	51,740	102,768
Wakala	134,518	204,838
Others	254,386	47,954
	1,378,311	1,352,155

29 DISTRIBUTION TO DEPOSITORS AND PROFIT PAID TO SUKUK HOLDERS

	2010 AED 000	2009 AED 000
Distribution to depositors	940,645	690,388
Profit paid to sukuk holders	8,316	16,651
	948,961	707,039

Distribution to depositors represents the share of income between depositors and equity holders. The allocation and distribution to depositors was approved by the Islamic Bank's Fatwa and Sharia'a Supervisory Board.

Profit paid to sukuk holders represents the distribution of returns received in respect of leased assets transferred to the EIB Sukuk Company Limited which was specifically formed for this transaction.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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30 NET FEE AND COMMISSION INCOME

	2010 AED 000	2009 AED 000
Fee and commission income [refer note below]	2,447,247	2,370,939
Brokerage fees	19,121	42,003
Portfolio and other management fees	129,827	161,432
Total fee and commission income	2,596,195	2,574,374
Fee and commission expense	(757,120)	(663,198)
	1,839,075	1,911,176

Fee and commission income includes:

	2010 AED 000	2009 AED 000
Commission on trade finance products / services	529,369	557,079
Fee income	1,155,523	1,135,631
Commission on card related acquiring business	762,355	678,229
	2,447,247	2,370,939

31 NET GAIN ON TRADING SECURITIES

	2010 AED 000	2009 AED 000
Realised gain on trading securities	19,477	154,414
Unrealised gain on trading securities	33,415	15,682
	52,892	170,096

32 OTHER OPERATING INCOME

	2010 AED 000	2009 AED 000
Dividend income	87,065	88,729
Gains from sale of available-for-sale investment securities	266,154	202,688
Loss from sale of other debt securities	(1,151)	(29,985)
Loss from investment securities designated at fair value through profit or loss	(48,567)	(10,308)
Rental income	26,464	25,578
Unrealised / realized / revaluation loss on investment properties	(214,384)	(67,718)
Interest rate instruments	73,340	(5,895)
Foreign exchange income	707,709	764,415
Other income	138,026	332,652
	1,034,656	1,300,156

33 GENERAL AND ADMINISTRATIVE EXPENSES

Charges to general and administrative expenses in respect of depreciation amounted to AED 271 million (2009: AED 250 million).

The charge also includes staff related expenses of AED 1,949 million (2009: AED 2,181 million) and occupancy expenses of AED 280 million (2009: AED 275 million).

During the year an amount of AED 32 million (2009: AED 31 million) has been charged to the Group consolidated income statement in respect of the Group's contribution to a UAE Pension and Social Security Scheme set up by the UAE Government authorities to provide retirement benefits for UAE nationals.

34 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2010 AED 000	2009 AED 000
Net impairment of loans and receivables [refer note 6]	(2,563,703)	(2,636,104)
Net impairment of Islamic financing and investment products [refer note 8]	(283,319)	(372,421)
Net impairment of investment securities	(285,587)	(219,031)
Net impairment on investment in associates [refer note 12]	(360,000)	(316,000)
Net impairment of due from banks	21,657	(42,147)
Bad debt written off	(79,015)	(49,269)
	(3,549,967)	(3,634,972)

35 DIRECTORS' FEES

This comprises of fees payable to the directors of the Group of AED 21.8 million (2009: AED 20.6 million). The 2010 figure includes fees payable to the directors of subsidiaries of AED 11.1 million (2009: AED 10.1 million).

36 TAXATION

At 31 December 2010 provisions for tax payable on overseas branch operations amount to AED 11.8 million (2009: AED 1.6 million) [refer note 23].

37 EARNINGS PER SHARE

The basic earnings per share of AED 0.37 is based on the profit, attributable to equity holders, of AED 2,338 million (further adjusted for interest on tier I capital notes amounting to AED 262 million), for the year ended 31 December 2010 [2009: AED 3,346 million (further adjusted for interest on tier I capital notes amounting to AED 133 million)], divided by 5,557,774,724 shares outstanding as at the reporting date. The earnings per share of AED 0.58 as reported for the year ended 31 December 2009 has been adjusted for the effect of the bonus shares issued in 2009.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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38 DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

31 December 2010 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	206,813	(115,067)	76,074,751	41,124,903	32,317,035	2,564,720	68,093	-
Foreign exchange options	95,134	(95,131)	6,250,176	2,047,000	4,203,176	-	-	-
Interest rate swaps/caps	1,647,624	(1,429,368)	50,949,640	1,667,530	10,644,326	12,797,564	13,743,990	12,096,230
Credit derivatives	23,341	(129,365)	5,669,238	146,900	1,131,130	4,250,184	141,024	-
Equity Options	162,090	(104)	260,094	1,344	258,750	-	-	-
	2,135,002	(1,769,035)	139,203,899	44,987,677	48,554,417	19,612,468	13,953,107	12,096,230
Derivatives held as cash flow hedges:								
Interest rate swaps	310,557	(192,730)	15,873,741	399,550	3,539,696	2,078,660	9,304,960	550,875
Derivatives held as fair value hedges:								
Interest rate swaps	-	(7,581)	79,079	-	-	-	-	79,079
Total	2,445,559	(1,969,346)	155,156,719	45,387,227	52,094,113	21,691,128	23,258,067	12,726,184

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FOR THE YEAR ENDED 31 DECEMBER 2010

38 DERIVATIVES (continued)

31 December 2009 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	296,344	(278,027)	76,922,584	34,462,212	40,346,874	2,011,118	66,494	35,886
Foreign exchange options	153,070	(153,070)	7,705,005	7,705,005	-	-	-	-
Interest rate swaps/caps	1,908,660	(1,494,814)	57,169,922	1,649,394	5,140,415	15,896,691	16,002,994	18,480,428
Credit derivatives	31,420	(313,004)	7,108,858	499,460	183,625	5,959,733	466,040	-
Equity Options	168,185	(1,344)	-	-	-	-	-	-
	2,557,679	(2,240,259)	148,906,369	44,316,071	45,670,914	23,867,542	16,535,528	18,516,314
Derivatives held as cash flow hedges:								
Interest rate swaps	262,007	(178,852)	13,482,307	334,198	550,875	4,268,609	7,226,875	1,101,750
Derivatives held as fair value hedges:								
Interest rate swaps	-	(5,113)	78,587	-	-	-	-	78,587
Total	2,819,686	(2,424,224)	162,467,263	44,650,269	46,221,789	28,136,151	23,762,403	19,696,651

38 DERIVATIVES (continued)

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and balance sheet hedging. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

The Group uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate customer deposits. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and receivables. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

The Group also uses interest rate swaps to hedge against changes in value of investment securities due to interest rate movements. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

39 EMPLOYEES' LONG TERM INCENTIVE SCHEME

On 1 April 2006, the Group had introduced two long term incentive plans for selected key employees. These are cash settled share based incentive plans wherein participants are awarded with Long Term Incentive (LTI) units which will be converted into cash after vesting.

(i) Key employee long term incentive plan (LTIP)
This plan is applicable for selected key employees of Emirates NBD and the LTI units will vest over a period of three years from date of grant. Subject to continued employment with Emirates NBD, 30% of the LTI units can be cashed after two years and the remaining 70% after three years up to the fifth anniversary from the date of grant.

(ii) Executive long term incentive plan (ELTIP)
This plan is applicable for selected senior executives of Emirates NBD who are granted LTI units and performance units. Subject to continued employment with Emirates NBD, the LTI units will vest at the end of three years from date of grant. Performance units will vest based on the pre-defined performance of Emirates NBD during the three year period and will range from 50% to 150% of the units granted. LTI units and performance units can be cashed within a period of two years from the vesting date.

IFRS 2 "Share Based Payments" is applied in accounting for the LTI units granted. The expense of these plans is measured based on the fair value of the equity shares, the term, the risk free interest rate and the expected number of employees who will exercise the option rights using the Black Scholes pricing model. The fair valuation of the plan is carried out at each reporting date and is expensed on a straight line basis over the vesting period.

The fair value charge for the year ended 31 December 2010 was AED 0.4 million (2009: AED 5.1 million) for LTIP and AED 2.4 million (2009: AED 0.5 million) for ELTIP. Included in other liabilities is an amount of AED 6.7 million (2009: AED 38.7 million) pertaining to these long term incentive plans.

The movement in number of LTI units granted during the year is as below:

	LTIP	ELTIP
LTI outstanding as at 1 January 2010	4,733,131	1,030,810
LTI units forfeited/lapsed during the year	(118,004)	(135,686)
LTI units vested during the year	(3,492,879)	(895,124)
LTI units outstanding as at 31 December 2010	1,122,248	-

40 BUSINESS SEGMENT REPORTING

The Group is organised into the following main businesses:

(a) Corporate banking represents structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate and commercial customers.

(b) Consumer banking represents retail loans and deposits, private banking and wealth management, consumer financing, card services and call center operations.

(c) Treasury activities comprises of managing the Group's portfolio of investments, funds management, and interbank treasury operations.

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiary.

(e) Cards processing represents business pertaining to merchant acquiring and cards processing.

(f) Other operations of the Group include investment banking, asset management, equity broking services, property management, certain overseas branches, operations and support functions.

40 BUSINESS SEGMENT REPORTING (continued)

31 December 2010	Corporate banking	Consumer banking	Treasury	Islamic banking	Cards processing	Others	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,274,001	2,381,869	77,858	705,905	9,211	346,020	6,794,864
Net fee, commission and other income	1,126,104	940,277	623,234	60,750	363,149	(186,891)	2,926,623
Total operating income	4,400,105	3,322,146	701,092	766,655	372,360	159,129	9,721,487
General and administrative expenses	(343,026)	(1,163,452)	(66,495)	(367,594)	(182,151)	(930,571)	(3,053,289)
Net specific impairment loss on financial assets	(1,444,104)	(903,422)	(139,285)	(343,444)	-	(385,996)	(3,215,251)
Net collective impairment loss on financial assets	(523,000)	240,524	-	(47,800)	-	(4,440)	(334,716)
Amortisation of intangibles	-	-	-	-	-	(93,860)	(93,860)
Share of profit/(loss) of associates and joint ventures	-	-	-	-	80	(664,410)	(664,330)
Taxation charge	-	(4,026)	-	-	(1,231)	(15,601)	(20,858)
Group profit for the year	2,089,975	1,491,770	495,312	7,817	189,058	(1,934,749)	2,339,183
Segment assets	178,441,065	27,619,824	51,674,825	21,623,089	827,826	6,029,259	286,215,888
Segment liabilities and equity	99,781,977	72,024,003	49,129,469	31,102,509	483,717	33,694,213	286,215,888

40 BUSINESS SEGMENT REPORTING (continued)

31 December 2009

	Corporate banking	Consumer banking	Treasury	Islamic banking	Cards processing	Others	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,586,670	2,597,076	188,719	702,686	2,389	334,641	7,412,181
Net fee, commission and other income	1,248,403	789,811	401,162	140,532	368,250	433,270	3,381,428
Total operating income	4,835,073	3,386,887	589,881	843,218	370,639	767,911	10,793,609
General and administrative expenses	(380,614)	(1,272,385)	(74,445)	(405,759)	(171,818)	(1,245,897)	(3,550,918)
Net specific impairment loss on financial assets	(580,117)	(913,704)	(358,532)	(169,355)	-	(326,216)	(2,347,924)
Net collective impairment loss on financial assets	(355,000)	(738,000)	-	(194,048)	-	-	(1,287,048)
Amortisation of intangibles	-	-	-	-	-	(93,860)	(93,860)
Share of profit/(loss) of associates and joint ventures	-	-	-	-	590	(162,199)	(161,609)
Taxation charge	-	620	-	-	(111)	(10,227)	(9,718)
Group profit for the year	3,519,342	463,418	156,904	74,056	199,300	(1,070,488)	3,342,532
Segment assets	178,384,487	27,404,344	33,149,646	25,021,265	548,667	17,068,073	281,576,482
Segment liabilities and equity	89,729,249	58,263,499	42,142,977	26,800,207	1,125,301	63,515,249	281,576,482

41 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The principal direct subsidiaries of the Group are as follows:

As at 31 December 2010

	Group % Share-holding	Nature of business	Country of incorporation
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
Diners Club (UAE) LLC	100	International charge card	Dubai, U.A.E.
E.T.F.S. LLC	100	Trade finance services	Dubai, U.A.E.
Emirates Financial Services PSC	100	Funds management	Dubai, U.A.E.
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey, U.K.
Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.
Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
Emirates Loyalty Company LLC	100	Customer loyalty and smart card services	Dubai, U.A.E.
Emirates NBD Asset Management Limited (registered in Dubai International Financial Centre)	100	Asset management	Dubai, U.A.E.
Emirates Islamic Bank PJSC	99.8	Islamic banking	Dubai, U.A.E.
Emirates Money Consumer Finance LLC	100	Consumer Finance	Dubai, U.A.E.
Emirates Funds LLC	100	Asset Management	Dubai, U.A.E.
Emirates NBD Capital Limited (registered in Dubai International Financial Centre)	100	Investment Banking	Dubai, U.A.E.
Emirates NBD Capital (KSA) LLC	100	Investment Services	KSA
Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey, U.K.
Network International LLC	100	Card processing services	Dubai, U.A.E.
Associates:			
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.
Union Properties PJSC	47.6	Real estate	Dubai, U.A.E.
Joint ventures:			
Sinnad W.L.L.	49	Third party ATM and card processing services	Bahrain
Obernet L.L.C.	51	Card embossing	Dubai, U.A.E.

Other entities consolidated by the Group based on an assessment of control are as follows:

	Nature of business
Group tranche of Emblem Finance Company No. 2 Limited	SPE for asset securitisation
Emirates NBD Auto Financing Limited ("Repack")	SPE for asset securitisation
Emirates NBD Auto Finance Limited ("APC")	SPE for asset securitisation

Any material changes in the Group's principal direct subsidiaries during the year 2010 and 2009 have been disclosed in note 11.

42 OPERATING LEASES

At 31 December, the Group's non-cancellable operating lease rentals are payable as follows:

	2010 AED 000	2009 AED 000
Less than one year	31,446	61,028
Between one and five years	78,814	171,010
More than five years	12,941	24,151
	123,201	256,189

43 COMMITMENTS AND CONTINGENCIES

(a) At 31 December, the Group's commitments and contingencies are as follows:

	2010 AED 000	2009 AED 000
Letters of credit	8,760,513	11,263,371
Guarantees	32,001,466	36,079,962
Liability on risk participations	1,179,009	1,201,415
Irrevocable loan commitments	9,301,142	10,092,483
	51,242,130	58,637,231

(b) Acceptances

Under IAS 39, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

(c) Capital commitments

The Group has commitments for branch refurbishments and automation projects of AED 237 million (2009: AED 497 million).

44 RELATED PARTY TRANSACTIONS

Banking transactions are carried out with certain related parties. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party transactions are as follows:

	2010 AED 000	2009 AED 000
Loans and receivables:		
To majority shareholder of the ultimate parent	52,998,082	48,982,478
To ultimate parent	918,250	920,386
To directors and related companies	2,969,728	3,955,459
To associates	3,908,633	3,782,210
	60,794,693	57,640,533
Customer and Islamic deposits:		
From majority shareholder of the ultimate parent	235,297	606,285
From ultimate parent	7,523,703	6,736,377
	7,759,000	7,342,662
Investment in Government of Dubai bonds	900,636	738,109
Loans to and investment in funds managed by the Group	1,029,790	1,661,145
Commitments to associates	3,022,827	567,636
Payments made to associates	88,854	56,437
Purchase of property from associate	406,072	-
Fees received in respect of funds managed by the Group	59,493	88,630
Interest paid to funds managed by the Group	17,733	19,758
Short term and post employment benefits	32,572	17,013

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relations at the period end.

45 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into amount any collateral held or other credit enhancement can be analysed by the following regions:

31 December 2010:

	GCC AED 000	International AED 000	Total AED 000
ASSETS			
Cash and deposits with Central Bank	37,682,944	-	37,682,944
Due from banks	6,134,262	7,716,205	13,850,467
Loans and receivables	174,542,644	4,428,669	178,971,313
Islamic financing and investment products	18,111,154	13,222	18,124,376
Trading securities	1,132,010	197,897	1,329,907
Investment securities	8,492,416	5,138,787	13,631,203
Investments in associates and joint ventures	1,411,687	-	1,411,687
Positive fair value of derivatives	1,289,172	1,156,387	2,445,559
Investment properties	1,907,291	-	1,907,291
Property and equipment	2,315,736	21,124	2,336,860
Goodwill and Intangibles	5,924,878	-	5,924,878
Customer acceptances	4,632,810	-	4,632,810
Other assets	3,138,764	-	3,138,764
Assets held for sale	699,553	128,276	827,829
TOTAL ASSETS	267,415,321	18,800,567	286,215,888
LIABILITIES			
Due to banks	11,679,696	7,177,029	18,856,725
Customer deposits	150,796,658	11,985,651	162,782,309
Islamic customer deposits	36,757,241	432,458	37,189,699
Repurchase agreements with banks	-	892,309	892,309
Debt issued and other borrowed funds	-	19,415,809	19,415,809
Sukuk payable	1,267,185	-	1,267,185
Negative fair value of derivatives	251,938	1,717,408	1,969,346
Customer acceptances	4,632,810	-	4,632,810
Other liabilities	4,976,389	-	4,976,389
Liabilities held for sale	435,922	47,795	483,717
Total equity	33,749,590	-	33,749,590
Total liabilities and equity	244,547,429	41,668,459	286,215,888
Geographical distribution of letters of credit and guarantees	37,401,234	3,360,745	40,761,979
31 December 2009:			
Geographical distribution of assets	259,055,714	22,520,768	281,576,482
Geographical distribution of liabilities and equity	218,498,238	63,078,244	281,576,482
Geographical distribution of letters of credit and guarantees	44,290,537	3,052,796	47,343,333

46 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values:

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

As at 31 December 2010	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Others AED 000	Total carrying value AED 000	Fair value AED 000	Unrecognised (loss)/gain AED 000
Financial assets										
Due from banks	-	-	-	-	13,850,467	-	-	13,850,467	13,920,154	69,687
Loans and receivables	-	-	-	178,971,313	-	-	-	178,971,313	178,849,354	(121,959)
Islamic financing and investment products	-	-	-	18,124,376	-	-	-	18,124,376	18,124,376	-
Trading securities	1,329,907	-	-	-	-	-	-	1,329,907	1,329,907	-
Investment securities	1,056,168	387,627	12,187,408	-	-	-	-	13,631,203	13,633,239	2,036
Investments in associates and joint ventures	-	-	-	-	-	-	1,411,687	1,411,687	1,020,947	(390,740)
Positive fair value of derivatives	2,135,002	-	-	-	-	310,557	-	2,445,559	2,445,559	-
Others	-	-	-	-	-	-	43,914,693	43,914,693	43,914,693	-
	4,521,077	387,627	12,187,408	197,095,689	13,850,467	310,557	45,326,380	273,679,205	273,238,229	(440,976)
Financial liabilities										
Due to banks	-	-	-	-	18,856,725	-	-	18,856,725	18,935,074	(78,349)
Customer deposits	-	-	-	-	162,782,309	-	-	162,782,309	163,542,161	(759,852)
Islamic customer deposits	-	-	-	-	37,189,699	-	-	37,189,699	37,189,699	-
Repurchase agreements with banks	-	-	-	-	892,309	-	-	892,309	892,309	-
Debt issued and other borrowed funds	-	-	-	-	19,415,809	-	-	19,415,809	19,415,809	-
Sukuk payable	-	-	-	-	1,267,185	-	-	1,267,185	1,267,185	-
Negative fair value of derivatives	2,169,656	-	-	-	-	(200,310)	-	1,969,346	1,969,346	-
Others	-	-	-	-	-	-	9,609,199	9,609,199	9,609,199	-
	2,169,656	-	-	-	240,404,036	(200,310)	9,609,199	251,982,581	252,820,782	(838,201)

46 FINANCIAL ASSETS AND LIABILITIES (continued)

As at 31 December 2009:

	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Others AED 000	Total carrying value AED 000	Fair value AED 000	Unrecognised (loss)/gain AED 000
Financial assets										
Due from banks	-	-	-	-	10,046,949	-	-	10,046,949	9,904,819	(142,130)
Loans and receivables	-	-	-	194,702,689	-	-	-	194,702,689	194,625,381	(77,308)
Islamic financing and investment products	-	-	-	19,911,611	-	-	-	19,911,611	19,911,611	-
Trading securities	611,093	-	-	-	-	-	-	611,093	611,093	-
Investment securities	1,428,492	575,596	14,148,432	-	-	-	-	16,152,520	16,155,111	2,591
Investments in associates and joint ventures	-	-	-	-	-	-	2,444,550	2,444,550	1,539,564	(904,986)
Positive fair value of derivatives	2,557,679	-	-	-	-	262,007	-	2,819,686	2,819,686	-
Others	-	-	-	-	-	-	22,577,379	22,577,379	22,577,379	-
	4,597,264	575,596	14,148,432	214,614,300	10,046,949	262,007	25,021,929	269,266,477	268,144,644	(1,121,833)
Financial liabilities										
Due to banks	-	-	-	-	29,995,062	-	-	29,995,062	29,831,091	163,971
Customer deposits	-	-	-	-	157,976,541	-	-	157,976,541	157,976,541	-
Islamic customer deposits	-	-	-	-	23,185,850	-	-	23,185,850	23,185,850	-
Repurchase agreements with banks	-	-	-	-	3,615,441	-	-	3,615,441	3,615,441	-
Debt issued and other borrowed funds	-	-	-	-	24,072,172	-	-	24,072,172	24,072,172	-
Sukuk payable	-	-	-	-	1,267,185	-	-	1,267,185	1,267,185	-
Negative fair value of derivatives	2,240,259	-	-	-	-	183,965	-	2,424,224	2,424,224	-
Others	-	-	-	-	-	-	7,069,363	7,069,363	7,069,363	-
	2,240,259	-	-	-	240,112,251	183,965	7,069,363	249,605,838	249,441,867	163,971

46 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities

(a) Due from banks

Due from banks includes overnight, call and short notice accounts and time loans having a maturity of up to five years. The deposits and loans are being repriced daily, monthly, quarterly and half yearly depending on the tenure of the placements using the prevailing market rates at the repricing date. The deposits and loans are all expected to be realised on maturity.

(b) Loans and receivables

Loans and receivables are net of impairment allowances.

A significant portion of the Group's loans and receivables portfolio comprises lending to corporate customers. These facilities are given at a variable rate determined, generally, with reference to the cost of funds and market rates besides the usual parameters of tenor and risk evaluation.

The balance of the loans and receivables portfolio comprises personal loans and other debt securities. The average interest rate on the personal loans at the year-end is in line with the rate charged for such lending in the local banking market.

(c) Islamic financing and investment products

Fees levied are comparable to those prevailing in the market for similar products. There has been no significant change in the fees levied on these products at the year ended 31 December 2010.

(d) Investment securities

Investment securities are classified as available-for-sale, held to maturity or designated at fair value through profit or loss account. The fair value of investments is based on the quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the investment is estimated using pricing models or discounted cash flow techniques. Held to maturity investments are net of impairment allowances.

(e) Investments in associates and joint ventures

The Group's investments in its associates and joint ventures are accounted for on an equity accounting basis [refer note 2 (g) (iii)] and amount to AED 1,411.7 million at 31 December 2010 (AED 2,444.5 million at 31 December 2009). The fair value of the investments in the associate companies, which are public quoted companies on the Dubai Financial Market, amounts to AED 1,020.9 million at 31 December 2010 (AED 1,539.5 million at 31 December 2009).

(f) Customer deposits

Customer deposits comprise a significant amount of fixed deposits with an original maturity, generally, of one to three months. These deposits are repayable on maturity. A significant portion of these deposits has been maintained with the Group for a number of years on a roll over basis. For customer deposits maturing after three months of the year end date, a fair value has been arrived at by applying appropriate interest rates prevailing at the year end to these balances.

The balance of the customer deposits, primarily comprising interest bearing savings, call and fixed deposit accounts and non-interest bearing current accounts, is repayable on demand.

46 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities (continued)

(g) Islamic customer deposits

Islamic customer deposits receive a share of the profits of the Islamic Bank which has been approved by the Sharia'a Committee at the year end.

(h) Due to banks

Due to banks includes short-term borrowings with an original maturity, generally, of less than three months and non-interest bearing deposits. The short-term borrowings are repayable on maturity. The non-interest bearing deposits are repayable on demand. For borrowings maturing after three months from the balance sheet date, the fair value has been arrived at by applying the market interest rates prevailing at the year end to these deposits.

(i) Repurchase agreement with banks

These deposits are repriced on a quarterly basis and thus the carrying value is comparable to the fair value of the deposit.

(j) Debt issued and other borrowed funds

These borrowings have repayment periods of up to three years and the loans were taken at a variable rate determined, generally, with reference to the ninety-day LIBOR rate.

Valuation of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
31 December 2010				
Financial assets held for trading	1,329,907	-	-	1,329,907
Available-for-sale financial assets	8,248,023	1,903,346	2,036,039	12,187,408
Financial assets designated at fair value through profit or loss	466,307	587,642	2,219	1,056,168
Positive fair value of derivatives	-	2,445,559	-	2,445,559
Negative fair value of derivatives	-	(1,969,346)	-	(1,969,346)
	10,044,237	2,967,201	2,038,258	15,049,696

46 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
31 December 2009				
Financial assets held for trading	365,263	245,830	-	611,093
Available-for-sale financial assets	7,725,846	3,226,657	3,195,929	14,148,432
Financial assets designated at fair value through profit or loss	724,746	681,878	21,868	1,428,492
Positive fair value of derivatives	-	2,818,616	1,070	2,819,686
Negative fair value of derivatives	(570)	(2,423,654)	-	(2,424,224)
	8,815,285	4,549,327	3,218,867	16,583,479

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets AED 000	Financial assets designated at fair value through profit or loss AED 000	Positive fair value of derivatives AED 000	Negative fair value of derivatives AED 000	Total AED 000
Balance as at 1 January 2010	3,195,929	21,868	1,070	-	3,218,867
Total gains or losses:					
• in profit or loss	(11,251)	950	(1,070)	-	(11,371)
• in other comprehensive income	-	(20,599)	-	-	(20,599)
Purchases	55,564	-	-	-	55,564
Settlements	(422,173)	-	-	-	(422,173)
Transfers out of Level 3	(782,030)	-	-	-	(782,030)
Balance as at 31 December 2010	2,036,039	2,219	-	-	2,038,258

During the financial year ended 31 December 2010 available for sale financial assets with a carrying amount of AED 349 million (2009: AED 2,324 million) were transferred from Level 1 to Level 2 because quoted prices in the market for such debt securities became no longer regularly available. In order to determine the fair value of such debt securities, management used a valuation technique in which all significant inputs were based on observable market data. There have been transfers from Level 2 to Level 1 amounting to 2,606 million (2009: AED 47 million) during the year 2010.

47 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

	2010 AED 000	2009 AED 000
(a) Analysis of changes in cash and cash equivalents during the year		
Balance at beginning of year	(16,813,335)	(38,367,574)
Net cash inflow	15,052,705	21,554,239
Balance at end of year	(1,760,630)	(16,813,335)

	2010 AED 000	2009 AED 000
(b) Analysis of cash and cash equivalents		
Cash and deposits with Central Bank	37,682,944	19,670,666
Due from banks [including AED 24,934 ('000) classified as under assets for sale]	13,875,401	10,046,949
Due to banks [including AED 44 ('000) classified as assets for sale]	(18,856,768)	(29,995,062)
	32,701,577	(277,447)
Less : deposits with Central Bank for regulatory purposes	(11,893,119)	(10,714,858)
Less : certificates of deposits with Central Bank	(24,250,000)	(6,700,000)
Less : amounts due from banks maturing after three months	(228,865)	(308,475)
Add : amounts due to banks maturing after three months	1,909,777	1,187,445
	(1,760,630)	(16,813,335)

48 CAPITAL MANAGEMENT AND ALLOCATION

The Central Bank of UAE supervises 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 I & II framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. While Basel I allocates capital only for the Credit Risk, Basel II capital regime is more inclusive (described below). The Basel II framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Minimum Capital Requirements

For implementing current capital requirements, the Central Bank of UAE requires the Group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%).

The tiered components of bank's regulatory capital comprise of:

- Tier I capital includes share capital, legal, statutory and other reserves, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier II capital includes qualifying subordinated debt and fair value reserve.

The capital adequacy ratio as per Basel I framework is given below:

	2010 AED 000	2009 AED 000
Tier I capital		
Issued capital	5,557,775	5,557,775
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	2,198,205	1,964,205
Other reserves	2,869,533	2,869,533
Retained earnings	6,700,409	5,989,809
Tier I capital notes	4,000,000	4,000,000
Non-controlling interest	93,820	94,145
Total tier I capital	33,689,866	32,745,591
Less : Goodwill and intangibles [including AED 26,733 ('000) classified as under assets for sale]	(5,951,611)	(6,045,471)
Less : Treasury shares	(46,175)	(46,175)
Total	27,692,080	26,653,945

48 CAPITAL MANAGEMENT AND ALLOCATION (continued)

	2010 AED 000	2009 AED 000
Tier II capital		
Fair value reserve	47,655	(728,772)
Hybrid (debit/equity) capital instruments	12,584,215	12,196,085
Subordinated debt	3,236,481	3,710,830
Total	15,868,351	15,178,143
Eligible tier II capital	15,868,351	15,178,143
Total regulatory capital	43,560,431	41,832,088

RISK WEIGHTED EXPOSURE

	2010 AED 000	2009 AED 000
Corporate banking	141,801,149	154,551,077
Consumer banking	20,485,003	21,557,787
Treasury	13,550,903	17,274,597
Others	8,951,864	7,796,846
Total	184,788,919	201,180,307

Capital Ratio:

	2010	2009
Total regulatory capital as a percentage of total risk weighted assets	23.57%	20.79%
Total tier I capital as a percentage of risk weighted assets	14.99%	13.25%

48 CAPITAL MANAGEMENT AND ALLOCATION (continued)

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.

The capital adequacy ratio as per Basel II framework is given below:

	2010 AED 000	2009 AED 000
Tier I capital		
Issued capital	5,557,775	5,557,775
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	2,198,205	1,964,205
Other reserves	2,869,533	2,869,533
Retained earnings	6,700,409	5,989,809
Tier I capital notes	4,000,000	4,000,000
Non-controlling interest	93,820	94,145
Total tier I capital	33,689,866	32,745,591
Less : Goodwill and intangibles [including AED 26,733 ('000) classified as under assets for sale]	(5,951,611)	(6,045,471)
Less : Treasury shares	(46,175)	(46,175)
Total	27,692,080	26,653,945
Tier II capital		
Undisclosed reserves/ general provisions	2,192,636	1,663,873
Fair value reserve	47,655	(728,772)
Hybrid (debit/equity) capital instruments	12,584,215	12,584,215
Subordinated debt	3,236,481	3,710,830
Total	18,060,987	17,230,146
Eligible tier II capital	15,873,694	15,178,143
Total regulatory capital	43,565,774	41,832,088

48 CAPITAL MANAGEMENT AND ALLOCATION (continued)

RISK WEIGHTED EXPOSURE

	2010 AED 000	2009 AED 000
Credit risk	201,074,208	207,586,351
Market risk	2,349,730	3,170,818
Operational risk	13,762,621	13,140,656
	217,186,559	223,897,825

Capital Ratio:

	2010	2009
Total regulatory capital as a percentage of total risk weighted assets	20.06%	18.68%
Total tier I capital as a percentage of risk weighted assets	12.75%	11.90%

49 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 4,305 million at 31 December 2010 (2009: AED 5,256 million).

50 RISK MANAGEMENT

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 organisational 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 the 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.

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 authorized 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.

50 RISK MANAGEMENT (continued)

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.

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 also 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 bank 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 Central Bank of UAE 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.

50 RISK MANAGEMENT (continued)

Credit risk management and structure (continued):

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.

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 and monitored on the basis of exception, management information reports and 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.

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 / 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.

50 RISK MANAGEMENT (continued)

ANALYSIS BY ECONOMIC ACTIVITY FOR ASSETS:

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2010 AED 000		2009 AED 000	
	Loans and receivables	Others	Loans and receivables	Others
Agriculture and allied activities	36,076	629	93,637	1,112
Mining and quarrying	273,336	34,689	343,671	39,738
Manufacturing	7,755,030	1,349,538	8,542,742	1,078,083
Construction	5,510,423	1,214,523	7,391,491	1,567,713
Trade	6,840,720	714,382	8,252,355	801,753
Transport and communication	5,131,480	1,324,677	6,262,372	1,143,326
Services	17,553,754	2,250,868	19,387,761	2,107,157
Sovereign	52,998,082	2,582,100	49,021,516	3,039,214
Personal - retail	21,310,040	2,639,612	24,497,978	2,787,332
Personal - corporate	10,209,843	1,845,320	11,785,532	2,042,069
Real estate	25,926,913	11,347,019	27,056,045	13,556,613
Banks	44,737	18,642,961	376,098	15,853,165
Other financial institutions and investment companies	25,821,431	5,550,143	27,369,574	6,158,309
Others	7,059,175	1,298,248	9,731,238	746,205
Total assets	186,471,040	50,794,709	200,112,010	50,921,789
Less: Allowances for impairment	(7,499,727)	(1,869,950)	(5,409,321)	(1,070,214)
Less: Deferred income	-	(577,119)	-	(684,852)
	178,971,313	48,347,640	194,702,689	49,166,723

Others includes due from banks, Islamic financing and investment products, investment securities, trading securities and investments in associates and joint ventures.

50 RISK MANAGEMENT (continued)

Classification of trading securities and investment securities as per their external ratings:

As of 31 December 2010

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	556,232	-	556,232
AA- to AA+	-	114,389	2,269,324	135,780	2,519,493
A- to A+	3,018	85,940	1,734,623	150,773	1,974,354
Lower than A-	98,844	18,365	1,264,196	39,134	1,420,539
Unrated	954,306	168,933	6,363,033	1,004,220	8,490,492
	1,056,168	387,627	12,187,408	1,329,907	14,961,110

Of which issued by:

	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	169,484	2,665,139	187,101	3,021,724
Public sector enterprises	26,322	101,934	1,213,609	754,561	2,096,426
Private sector and others	1,029,846	116,209	8,308,660	388,245	9,842,960
	1,056,168	387,627	12,187,408	1,329,907	14,961,110

50 RISK MANAGEMENT (continued)

Classification of trading securities and investment securities as per their external ratings:

As of 31 December 2009

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	2,185,797	-	2,185,797
AA- to AA+	-	148,640	1,099,179	19,518	1,267,337
A- to A+	3,058	88,352	3,074,292	48,357	3,214,059
Lower than A-	110,396	18,365	1,514,957	54,856	1,698,574
Unrated	1,315,038	320,239	6,274,207	488,362	8,397,846
	1,428,492	575,596	14,148,432	611,093	16,763,613

Of which issued by:

	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	203,735	2,766,334	142,942	3,113,011
Public sector enterprises	18,002	42,852	1,107,696	29,250	1,197,800
Private sector and others	1,410,490	329,009	10,274,402	438,901	12,452,802
	1,428,492	575,596	14,148,432	611,093	16,763,613

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.

50 RISK MANAGEMENT (continued)

Collateral management (continued):

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.

Risk gross maximum exposure:

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2010 AED 000	2009 AED 000
Deposits with Central Bank	36,143,119	17,414,858
Due from banks	13,850,467	10,046,949
Loans and receivables	178,971,313	194,702,689
Islamic financing and investment products	18,124,376	19,911,611
Trading securities	1,329,907	611,093
Investment securities	13,631,203	16,152,520
Investments in associates and joint ventures	1,411,687	2,444,550
Positive fair value of derivatives	2,445,559	2,819,686
Customer acceptances	4,632,810	2,562,869
Total (A)	270,540,441	266,666,825
Contingent liabilities	41,940,988	48,544,748
Irrevocable loan commitments	9,301,142	10,092,483
Total (B)	51,242,130	58,637,231
Total credit risk exposure (A + B)	321,782,571	325,304,056

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50 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets, based on the Group's credit rating system.

31 December 2010

Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date* AED 000	Of which past due but not impaired on the reporting date: <30 days AED 000	31-60 days AED 000	61-90 days AED 000	> 90days AED 000	Of which individually impaired: Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	13,850,467	13,832,041	-	-	-	-	47,966	(2,050)	(27,490)	18,426
Loans and receivables:										
Corporate banking	160,329,255	147,073,660	235,854	108,328	50,762	103,329	15,583,294	(428,264)	(2,397,708)	12,757,322
Consumer banking	18,247,435	15,292,871	1,869,752	326,484	244,570	13,986	5,064,338	(1,678,274)	(2,886,292)	499,772
Treasury - other debt securities	394,623	298,144	-	-	-	-	361,418	-	(264,939)	96,479
Islamic financing	18,124,376	16,404,880	281,637	88,355	63,053	207,076	1,659,860	-	(580,485)	1,079,375
Trading and investment securities:										
Quoted - Government debt	2,852,240	2,852,240	-	-	-	-	-	-	-	-
Quoted - Other debt securities	5,158,459	5,065,769	-	-	-	-	156,710	-	(64,020)	92,690
Unquoted - Debt securities	2,064,515	2,060,702	-	-	-	-	110,959	-	(107,146)	3,813
Other securities	4,885,896	4,566,829	-	-	-	-	808,028	-	(488,961)	319,067

* Loans and receivables and Islamic financing include renegotiated loans amounting to AED 10,200 million.

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50 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS (continued):

31 December 2009

Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date* AED 000	Of which past due but not impaired on the reporting date: <30 days AED 000	31-60 days AED 000	61-90 days AED 000	> 90days AED 000	Of which individually impaired: Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	10,046,949	10,022,193	-	-	-	-	74,907	(1,004)	(49,147)	24,756
Loans and receivables:										
Corporate banking	170,944,509	169,340,260	291,578	184,613	88,454	328,427	1,822,253	(148,477)	(962,599)	711,177
Consumer banking	22,826,885	19,091,198	1,997,457	796,544	341,272	24,350	3,541,253	(855,844)	(2,109,345)	576,064
Treasury - other debt securities	931,295	815,577	-	-	-	-	789,222	-	(673,504)	115,718
Islamic financing	19,911,611	18,441,868	380,291	178,596	103,188	470,440	682,194	-	(344,966)	337,228
Trading and investment securities:										
Quoted - Government debt	2,768,417	2,768,417	-	-	-	-	-	-	-	-
Quoted - Other debt securities	5,818,583	5,805,032	-	-	-	-	45,362	-	(31,811)	13,551
Unquoted - Debt securities	2,494,039	2,486,126	-	-	-	-	11,019	-	(3,106)	7,913
Other securities	5,682,574	5,481,766	-	-	-	-	647,944	-	(447,136)	200,808

* Loans and receivables and Islamic financing include renegotiated loans amounting to AED 10,643 million.

50 RISK MANAGEMENT (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.

Past due but not impaired

For corporate exposures, the contractual interest or principal payments past due are disclosed. Based on an individual assessment, the Group determines that impairment on the total outstanding is not required 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.

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.

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 is 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.

50 RISK MANAGEMENT (continued)

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.

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.

50 RISK MANAGEMENT (continued)

Market risk (continued)

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, Dubai Financial Services Authority ("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 utilisation 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 utilisation 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

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50 RISK MANAGEMENT (continued)

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.

Foreign exchange exposure at year end (banking book + trading book):

	31 December 2010		31 December 2009	
Currency	Open position in currency 000	Open position in AED 000	Open position in currency 000	Open position in AED 000
CHF	(1,036)	(4,059)	7,903	28,173
EUR	(8,144)	(39,928)	19,371	102,458
GBP	(42,905)	(243,993)	10,599	63,197
KWD	11,814	154,193	1,391	17,819
OMR	(103,763)	(989,021)	(25,984)	(247,667)
QAR	1,828,882	1,843,623	533,724	538,026
SAR	(8,080,324)	(7,906,839)	(9,476,667)	(9,273,203)
USD	(294,901)	(1,083,023)	(3,294,357)	(12,098,527)
Others*	957,045	177,042	385,435	39,500
Total open position (AED 000)		(8,092,005)		(20,830,224)
Total open position limit (AED 000)		37,514,587		34,220,711
Limit utilisation (in %)		-21.57%		-60.87%

*Others include minor exposures in various other currencies.

Trading book managed by Market Risk Management

The Group has a conservative trading policy. All new products are only authorized 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 were 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.

50 RISK MANAGEMENT (continued)

Interest rate derivatives exposure:

Impact of +1 basis point parallel shift in the yield curve, on the trading book:

Transaction Currency	2010 AED 000 equivalent	2009 AED 000 equivalent
USD	53	39
AED	(20)	(101)
SAR	(6)	29
EUR	6	(2)
ZAR	-	11
Total	33	(24)

Market risk has implemented Reuters' KVaR+ system for VaR calculations, scenario building, and stress testing trading risk. The VaR is calculated according to two different methodologies:

- Historical simulation
- 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

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50 RISK MANAGEMENT (continued)

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 000	2009 AED 000
As at 31 December	5,374	4,440
Average	7,039	3,762
Minimum	1,923	1,519
Maximum	16,068	7,306

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 function 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.

50 RISK MANAGEMENT (continued)

Operational risk (continued)

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 organisation'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.

50 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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 distress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimising 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

50 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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.

50 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES:

The table below summarizes the maturity profile of the Group's assets and liabilities:

31 December 2010

	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000	Total AED 000
ASSETS						
Cash and deposits with Central Bank	13,432,923	24,250,021	-	-	-	37,682,944
Due from banks	13,621,601	210,509	18,357	-	-	13,850,467
Loans and receivables	79,336,344	14,113,822	40,403,468	18,880,233	26,237,446	178,971,313
Islamic financing and investment products	5,392,473	1,277,129	3,941,120	2,506,276	5,007,378	18,124,376
Trading securities	139,269	61,957	82,123	691,650	354,908	1,329,907
Investment securities	3,530,982	1,036,198	5,282,426	2,247,682	1,533,915	13,631,203
Investments in associates and joint ventures	-	-	-	-	1,411,687	1,411,687
Positive fair value of derivatives	90,350	529,942	120,005	197,236	1,508,026	2,445,559
Investment properties	-	-	-	-	1,907,291	1,907,291
Property and equipment	791,610	13,499	138,362	217,136	1,176,253	2,336,860
Goodwill and Intangibles	23,465	70,221	143,000	108,000	5,580,192	5,924,878
Customer acceptances	4,559,169	73,641	-	-	-	4,632,810
Other assets	3,138,764	-	-	-	-	3,138,764
Assets held for sale	608,594	9,754	32,039	62,229	115,213	827,829
TOTAL ASSETS	124,665,544	41,646,693	50,160,900	24,910,442	44,832,309	286,215,888

بنك الإمارات دبي الوطني
Emirates NBD

50 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued):

31 December 2010

	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000	Total AED 000
LIABILITIES						
Due to banks	16,946,948	1,909,777	-	-	-	18,856,725
Customer deposits	120,924,896	29,578,048	718,473	11,560,892	-	162,782,309
Islamic customer deposits	25,123,539	6,966,012	5,100,148	-	-	37,189,699
Repurchase agreements with banks	233,828	-	658,481	-	-	892,309
Debt issued and other borrowed funds	70,991	3,727,746	9,085,815	2,437,306	4,093,951	19,415,809
Sukuk payable	-	-	1,267,185	-	-	1,267,185
Negative fair value of derivatives	49,750	193,959	167,751	117,384	1,440,502	1,969,346
Customer acceptances	4,559,169	73,641	-	-	-	4,632,810
Other liabilities	4,976,389	-	-	-	-	4,976,389
Liabilities held for sale	483,717	-	-	-	-	483,717
Total equity	-	-	-	4,000,000	29,749,590	33,749,590
TOTAL LIABILITIES AND EQUITY	173,369,227	42,449,183	16,997,853	18,115,582	35,284,043	286,215,888
OFF BALANCE SHEET						
Letters of Credit and Guarantees	8,519,087	13,259,306	18,983,586	-	-	40,761,979
31 December 2009						
ASSETS	128,059,070	47,803,792	50,091,346	23,376,824	32,245,450	281,576,482
LIABILITIES	168,051,770	44,144,951	18,919,265	6,405,027	44,055,469	281,576,482
OFF BALANCE SHEET ITEMS	11,779,357	14,484,451	21,048,501	8,957	22,067	47,343,333

50 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES:

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2010

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	18,856,725	(18,946,801)	(16,976,621)	(1,949,516)	(20,664)	-	-
Customer deposits	162,782,309	(165,816,311)	(121,551,553)	(30,340,695)	(1,675,326)	(11,990,737)	(258,000)
Islamic customer deposits	37,189,699	(37,189,699)	(25,123,539)	(6,966,012)	(5,100,148)	-	-
Repurchase agreements with banks	892,309	(924,443)	(4,017)	(12,050)	(674,548)	-	(233,828)
Debt issued and other borrowed funds	19,415,809	(20,255,444)	(136,097)	(3,780,983)	(9,368,116)	(1,879,305)	(5,090,943)
	239,136,851	(243,132,698)	(163,791,827)	(43,049,256)	(16,838,802)	(13,870,042)	(5,582,771)

50 RISK MANAGEMENT (continued)

As at 31 December 2009

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	29,995,062	(30,052,422)	(28,828,699)	(933,430)	(39,650)	(18,273)	(232,370)
Customer deposits	157,976,541	(159,771,699)	(115,677,164)	(32,082,773)	(291,751)	(147,137)	(11,572,874)
Islamic customer deposits	23,185,850	(23,185,850)	(10,305,695)	(7,437,435)	(4,886,401)	(556,319)	-
Repurchase agreements with banks	3,615,441	(3,616,143)	(3,456,665)	(159,478)	-	-	-
Debt issued and other borrowed funds	24,072,172	(24,974,719)	(3,464,737)	(3,982,916)	(12,126,107)	(1,445,148)	(3,955,811)
	238,845,066	(241,600,833)	(161,732,960)	(44,596,032)	(17,343,909)	(2,166,877)	(15,761,055)

50 RISK MANAGEMENT (continued)

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 000	Variance AED 000	Amount AED 000	Variance AED 000
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 PV01. The interest rate gaps and sensitivity tests (NII and PV01) are measured on a monthly basis by Group risk, and monitored by Group ALCO.

50 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis:

31 December 2010:	Less than1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non interest bearing AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Bank	-	-	6,500,000	17,750,000	-	13,432,944	37,682,944
Due from banks	5,735,910	6,597,891	137,741	-	165,546	1,213,379	13,850,467
Loans and receivables	98,478,258	43,604,406	21,201,213	2,392,150	13,246,452	48,834	178,971,313
Islamic financing and investment products	3,447,721	670,128	1,588,877	973,802	11,443,848	-	18,124,376
Trading securities	-	-	14,547	61,957	1,253,403	-	1,329,907
Investment securities	3,495,589	2,434,101	583,126	2,854,095	2,376,325	1,887,967	13,631,203
Investments in associates and joint ventures	-	-	-	-	-	1,411,687	1,411,687
Positive fair value of derivatives	-	-	-	-	-	2,445,559	2,445,559
Investment properties	-	-	-	-	-	1,907,291	1,907,291
Property and equipment	-	-	-	-	-	2,336,860	2,336,860
Goodwill and Intangibles	-	-	-	-	-	5,924,878	5,924,878
Customer acceptances	-	-	-	-	-	4,632,810	4,632,810
Other assets	-	-	-	-	-	3,138,764	3,138,764
Assets held for sale	-	-	3,326	-	-	824,503	827,829
TOTAL ASSETS	111,157,478	53,306,526	30,028,830	24,032,004	28,485,574	39,205,476	286,215,888

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

50 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis (continued):

31 December 2010:	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non interest bearing AED 000	Total AED 000
LIABILITIES AND EQUITY							
Due to banks	8,243,715	4,150,637	3,606,888	889,099	736,694	1,229,692	18,856,725
Customer deposits	56,911,812	28,576,722	14,942,769	14,177,830	12,126,615	36,046,561	162,782,309
Islamic customer deposits	4,646,727	24,212,277	811,178	3,148,736	459,690	3,911,091	37,189,699
Repurchase agreements with banks	233,828	-	-	-	658,481	-	892,309
Debt issued and other borrowed funds	11,136,972	7,911,587	-	367,250	-	-	19,415,809
Sukuk payable	-	-	1,267,185	-	-	-	1,267,185
Negative fair value of derivatives	-	-	-	-	-	1,969,346	1,969,346
Customer acceptances	-	-	-	-	-	4,632,810	4,632,810
Other liabilities	-	-	-	-	-	4,976,389	4,976,389
Liabilities held for sale	-	-	-	-	-	483,717	483,717
Total equity	-	-	-	-	4,000,000	29,749,590	33,749,590
TOTAL LIABILITIES AND EQUITY	81,173,054	64,851,223	20,628,020	18,582,915	17,981,480	82,999,196	286,215,888
ON BALANCE SHEET GAP	29,984,424	(11,544,697)	9,400,810	5,449,089	10,504,094	(43,793,720)	-
OFF BALANCE SHEET GAP	(9,556,133)	(1,432,964)	161,612	661,376	10,166,109	-	-
INTEREST RATE SENSITIVITY GAP – 2010	20,428,291	(12,977,661)	9,562,422	6,110,465	20,670,203	(43,793,720)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2010	20,428,291	7,450,630	17,013,052	23,123,517	43,793,720	-	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2009	24,111,337	20,986,139	21,469,187	14,665,131	38,254,115	-	-

50 RISK MANAGEMENT (continued)

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.

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. Consumer 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 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.

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.

50 RISK MANAGEMENT (continued)

Capital management policies and stress testing

The Group adheres to the regulations set out by the Central Bank of the United Arab Emirates 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 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. 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.

50 RISK MANAGEMENT (continued)

Capital management policies and stress testing (continued)

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, capitalisation 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.

50 RISK MANAGEMENT (continued)

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 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 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.

51 COMPARATIVE FIGURES

Certain other comparative figures have been reclassified and restated where appropriate to conform with the presentation and accounting policies adopted in these financial statements.