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Deputy Ruler of Dubai
Minister of Finance



H.H.
**Sheikh Maktoum Bin Mohammed
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Deputy Ruler of Dubai

Board of Directors



H.E. Ahmed Humaid Al Tayer
Chairman



H.E. Easa Saleh Al Gurg
Vice Chairman



Fardan Bin Ali Al Fardan
Board Member



H.E. Abdulla Ahmed Lootah
Board Member



Khalid Jassim Kalban
Board Member



H.E. Hamad Mubarak Buamim
Board Member



Hussain Hassan Mirza Al Sayegh
Board Member



**H.E. Abdulla Sultan
Mohamed Al Owais**
Board Member



Buti Obaid Buti Al Mulla
Board Member



Khalid Juma Almajid
Board Member

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H.E. Ahmed Humaid Al Tayer
Chairman
Emirates NBD

Chairman's Message

“ While 2010 is expected to be a difficult year for the banking and financial sectors, we are entering this challenging time equipped with our strong fundamentals and our solid core businesses that meet the needs of our growing local, regional and international customer base.”

Emirates NBD has performed well in the turbulent financial environment of the past three years. Our bank has undergone many changes and is still known and respected for its position as an established and trusted brand, and the largest bank in the region.

The success of our completed merger, the largest in the region, has proven our ability to capitalise on value-adding opportunities for our shareholders and I believe the bank will benefit from such opportunities in the coming year as we see improvements in economic activity in the region.

Although the first half of the year showed signs of improving market and economic conditions, Emirates NBD continued with its prudent approach, taking steps to ensure we emerge strongly from the current economic environment.

Our cost rationalisation initiatives are proving to be successful and we continue to invest in select platforms for growth, including our Private Banking business and Abu Dhabi expansion.

Key financial highlights for 2010 included:

- **Total income** of AED 9.7 billion
- **Net interest income** of AED 6.8 billion
- **Operating expenses** of AED 3.1 billion
- **Improved cost to income ratio** of 31.4%
- **Customer deposits** at AED 200 billion, up 10% from AED 181.2 billion at the end of 2009
- **Customer loans** at AED 197.1 billion
- **Capital adequacy ratio** further strengthened to 20.1% compared with 18.7% at the end of 2009

Another highlight for Emirates NBD this year was the opening of our Singapore branch in November, which was attended by members of the bank's senior management. Singapore has an established reputation as one of the world's leading financial centres and its strategic location in Asia made it a logical choice for our first branch in the region.

In spite of the stabilisation of local and international economies, the outlook for the coming year is challenging. However, Emirates NBD's recent performance and ability to produce stable and robust results in spite of these difficult economic conditions, shows the bank's core business remains strong. With this backing, I believe we will continue to achieve our goals, reflecting the strength of our business model and further cementing our position as the region's leading banking group.

In closing, I would like to recognise the wise leadership of the UAE government and regulators especially the central Bank of the UAE and the contribution of the bank's Board of Directors who have provided valued guidance during 2010. I also sincerely thank the Group's employees for their commitment and efforts this year and our customers and shareholders for their ongoing support and trust.



Rick Pudner
Chief Executive Officer
Emirates NBD

CEO's Message

“ Looking towards 2011, I am very proud to be leading Emirates NBD and I am optimistic that our bank will continue to deliver on its promises to shareholders, customers, staff and the community, despite the remaining uncertainty in the global economic environment. ”

Although global economic conditions began to improve during the year, the environment remained challenging in the UAE. For this reason I have been pleased to see Emirates NBD's stable and robust performance during 2010 and am comfortable that the bank will continue its steady progress in the next 12 months.

Following the completion of the merger of our two legacy banks in 2009, customers were able to access their accounts and carry out their personal and business banking activities from any one of our over 130 branches and more than 700 ATMs/CDMs located across the emirates.

During 2010, the implementation of our new brand was also completed, giving Emirates NBD a fresh new look that I believe will support business growth in the coming years. Highly visible advertising campaigns have worked to reinforce Emirates NBD's reputation as a trusted local brand with a host of innovative products and services.

A number of dedicated teams have worked tirelessly throughout the year to further enhance our new systems, ensuring a smooth experience for all our customers.

We emerged from the challenges of 2009 focused on a number of strategic imperatives including optimising our balance sheet, driving profitability, enhancing risk management and selectively investing in platforms for growth.

Our resilience and our robust financial position in 2010 has enabled Emirates NBD to make progress on implementing the pillars of our long term strategy:

- Pursuing profitable growth in retail banking
- Establishing a distinctive wealth management offering
- Consolidating and enhancing our market position in Corporate Banking
- Expanding our Islamic Banking services
- Focusing on delivering excellent customer service
- Enhancing organisational resources to build a scalable platform
- Pursuing expansion in the GCC and other key strategic markets

The bank's management continues to operate with caution and prudence as we work to maintain our strong financial position, increase our customer base and as we move closer to achieving our vision of being globally recognised as the leading financial services provider based in the Middle East.

To this end, in 2010 we continued to build our geographically diversified service offering with the opening of our first Asia Pacific branch in Singapore. The new branch is expected to play a pivotal role in facilitating and catalysing trade flow between Asia and the Middle East and will provide private banking services to high net worth Middle Eastern and Asian investors.

Our bank now has branches in the UK and Jersey (Channel Islands), the Kingdom of Saudi Arabia, Singapore and Qatar (QIFC) and representative offices in Iran and India.

Looking towards 2011, I am very proud to be leading Emirates NBD and I am optimistic that our bank will continue to deliver on its promises to shareholders, customers, staff and the community, despite the remaining uncertainty in the global economic environment.

Thank you to the management team and all staff for their efforts in 2010, I look forward to another successful year together.



Our Brand Campaign 2010

How we staged the continuation of our successful brand launch

'Where the world comes to bank' was a statement that defined us in 2009. Come 2010, it was time to move beyond, substantiate that statement, and finally assert our presence in the market. It was time to tell our customers exactly why the world comes to bank with an entity like ours.

One big reason is that we have decades of experience in the region and extend a superior banking experience to customers from all walks of life, on a daily basis. So our experience, products, services and expertise became the Truth, while our customers' experience and end benefit became the Reality.

This thought was brought alive in a simple, instantly recognizable advertising campaign and rolled out across the country. It also helped us own a unique tone of voice that stood out amongst other established names in the market.

Our Manifesto

Truth & Reality... they may appear to be one and the same. But they are not. Truth is bound by an indisputable fact, while Reality is rather subjective. It's true, you are looking at these words. Reality? What you are reading depends on your frame of mind.

At Emirates NBD, we believe every Truth has the potential of being a positive Reality. We've embraced this fresh new perspective. And shared it. Firstly amongst ourselves, then with our partners and lastly, and most importantly, with our beloved customers. We make sure every Truth about us translates into a meaningful Reality, for everyone. Because Truth be told, it's Reality that matters most.

Brand Campaign 2010 roll-out

Press Ads



CORPORATE



PRODUCT



SEGMENT

Outdoors

AIRPORT



SCAFFOLDING



LAMP-POST



ROOF TOPS



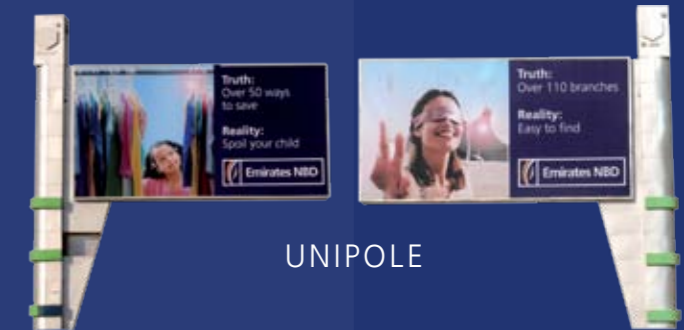
BUILDING WRAPS



BRIDGE BANNERS



UNIPOLE



Economic Overview

2010 - Transitioning to stronger growth.

2010 was a year of transition. As the financial crisis of 2008 was followed by economic downturn in 2009 this finally gave way to recovery in 2010. While this process of recovery is still in its early stages at the start of 2011, particularly in the developed world, the signs are encouraging that it will mature and become more sustainable over the coming year.

In 2010 growth, which began in China, rotated from East to West, benefiting the MENA region, the GCC, and the UAE in the process as world trade flows improved, oil prices rose, and the financial system normalized. As the year progressed, most other public and private sector institutions, including the IMF, adjusted their UAE growth forecasts upward bringing them into line with our long held 2.5% forecast for the year.

Three developments in 2010 shaped the year and the UAE's headline performance in it. First, global demand recovered much more vigorously than many had expected, with Asia Pacific in particular providing sustained demand for local commodities and business services. Regional growth has recovered well too, with Saudi Arabia, Qatar, and Turkey all performing well. Set within a global and regional context, demand-pull factors have proven to be much stronger than many had anticipated.

Second, conditions in the local credit markets have improved dramatically, assisted by progress in restructuring as well as the introduction of some key structural reforms. From the peak of uncertainty at the start of the year, measures of local risk (such as CDS spreads) improved substantially once the introduction of reforms and corporate restructuring got underway. Structural reforms establishing a sovereign debt management office, a national credit bureau and imposing stricter provisioning requirements for banks also contributed to the improving tone in markets. Despite some volatility, local credits have performed well in the context of more recent regional market turbulence and indebtedness problems in other parts of the world.

Economic Overview

Third, risk-aversion, which was a drag on sentiment in the first half of 2010, turned the corner in the second half with most surveys of business and consumer optimism beginning to rise. This has continued so far in early 2011 as well, despite the incidence of social and political tensions in other parts of the MENA region.

Going forward, four key trends should make growth faster this year than in the last. First, there is evidence that more Asian businesses are continuing to set up in the UAE, using the Emirates as a base for expansion into Africa and the wider Middle East. We expect that this trend will become stronger with benefits to hospitality, real estate, and retail sectors. World trade should also continue to strengthen benefiting Dubai in particular given its strong infrastructure, transport, and logistics networks.

Secondly, lending is slowly beginning to rise again, and credit growth is starting to pick up. Indeed credit growth, which averaged around 1.0% in 2010, is expected to recover faster in 2011 as the macroeconomic environment continues to improve and risk aversion eases further. Moreover this theme should continue despite ongoing corporate restructuring and refinancing requirements. While these may act as a counterweight to growth overall, progress in this direction should still support an overall improvement in sentiment.

Thirdly, commodity prices will continue to rise to the benefit of external and fiscal accounts and infrastructure development expenditure. In particular, oil and gas prices are underpinned by global demand, a recovery in global manufacturing, and flows into ETF products. Oil prices have already surpassed \$100 per barrel, but even once regional tensions have passed, it seems likely that the oil price will remain underpinned by the strength of underlying demand.

Fourth, capital markets in the Middle East are showing evident signs of thawing, while at the same time offering valuations and ratings that are highly competitive. The region is investment grade - unlike many countries in the EM world. Equity markets, while small, are cheap compared with EM markets and there is real potential for fixed income gains.

Thus, while the progress from a year ago is palpable, in the future 2010 is likely to be viewed as merely the first stage of the recovery cycle – a transitioning stage, which in the coming year should gain greater traction, strength and durability.

2011 Strategy

Emirates NBD's vision is 'to be globally recognised as the leading and most dynamic financial services provider based in the Middle East'. After the completion of the re-branding of Emirates NBD in Q1 2010, the Bank has successfully established a very strong brand during the course of the year which is already seen as one of the leading brands in the region. During 2011, Emirates NBD will build on the brand and its footprint in the UAE to further exploit local and regional opportunities.

The bank's strategy remains built around four strategic imperatives:

- Optimise Balance Sheet and Capital Allocation
- Drive Profitability
- Enhance Platforms
- Measured Investments in Platforms for Growth

Optimizing the Balance Sheet remains a top priority for Emirates NBD. Having achieved a significant improvement in the Loan to Deposit Ratio during 2010, the focus remains on diversifying customer funding sources, reducing the cost of funding and securing long-term funding sources. Further, Emirates NBD will continue to review its non-core activities to evaluate potential opportunities for value creation and ensure efficient use of capital.

To drive profitability, Emirates NBD will focus on maximizing customer revenue through improved cross-selling based on key account planning for Corporates and Customer Lifecycle Management on the Personal Banking side. Emirates NBD is focusing on further refining and enhancing segment propositions across all customer segments such as Private Banking, Priority Banking, SME and Mass Retail. Additionally, Emirates NBD is looking at opportunities to further optimize its cost position, internally and through outsourcing.

While over the past two years a lot of focus had been given to enhancing the risk management function the scope of enhancing the platform has been broadened. Given the aspired growth of the business, enhancing important support functions like Human Resources and Finance and strengthening the Information Technology and Operations platform will be critical to the Bank's success.

Emirates NBD is set to continue to make investments in future platforms for growth. These include regional and geographic expansion into under-penetrated markets such as Abu Dhabi and the Northern Emirates, leveraging the Bank's existing international presence in countries like the Kingdom of Saudi Arabia, the United Kingdom and Singapore and penetration of underserved or fast growing segments such as Private Banking, Small to Medium sized Enterprises and Islamic Finance.



Emirates NBD launched its first Asia Pacific branch in Singapore.

Review of Performance

Financial Overview

While the operating environment during 2010 has remained challenging, Emirates NBD has delivered a robust financial performance. During the year, the Bank has achieved significant success in positioning the Bank for future growth opportunities through an improved funding and liquidity position, strengthened capitalisation, enhanced risk management capabilities and increased operating efficiency. The Group has also continued to invest selectively in growth areas such as Private Banking, SME Banking and our expansion in the UAE and regionally which is expected to reap further benefits in 2011.

Total income for 2010 declined by 10% to AED 9,721 million compared with AED 10,794 million in 2009. In the fourth quarter of 2010, total income declined by 9% to AED 2,262 million from AED 2,496 million in Q4 2009.

Net interest income reached AED 6,795 million for the full year and AED 1,620 million for the fourth quarter of 2010, a decrease of 8% and 16% respectively on the comparable periods in 2009, driven by an 8% contraction in the



Emirates NBD hosted Charity Putt at Omega Dubai Ladies Masters 2010 to support Dubai Cares.

loan book and a decline in the 2010 net interest margin to 2.52% from 2.81% in 2009.

The margin decline resulted from a contraction of spreads generated from interbank funding, increased deposit funding costs and the mix impact of an improved funding profile, partly offset by increased asset spreads across both corporate and retail businesses.

Non-interest income recorded a year-on-year decline of 13% to AED 2,926 million in 2010. The decrease was largely driven by a decline in income from investments and lower fees relating to trade finance and the Brokerage and Asset Management businesses.

Costs amounted to AED 3,053 million in 2010, an improvement of 14% over 2009 levels, while costs in the fourth quarter of 2010 improved by 13% to AED 758 million from AED 876 million in Q4 2009. The 2010 cost to income ratio decreased to 31.4% from 32.9% in 2009, which was achieved through proactive cost management and the continued

realisation of integration synergies while maintaining investment in the bank's distribution and technology infrastructure as well as in the governance and control environment. Emirates NBD continues to pro-actively manage credit quality and impaired loans across the Bank's corporate, retail and Islamic financing portfolios have increased within previously expected levels. During 2010, the full required specific provision was made for Dubai World and the Bank's exposure to this entity has been included in impaired loans.



Emirates NBD signed an agreement with Meydan for the purchase of three commercial buildings in Meydan Metropolis.

Review of Performance

The impairment charge in respect of 2010 declined by 4% to AED 3,190 million compared with AED 3,319 million in 2009. This was primarily driven by a previously expected increase in specific impairments in the Bank's corporate portfolios, partly offset by a deceleration in the build-up of portfolio impairment allowances. Nevertheless, the Bank added AED 335 million to portfolio impairment allowances during 2010, taking the total to AED 2.2 billion or 1.4% of unclassified credit risk weighted assets.

The contribution of the Bank's investments in associates during 2010 amounted to negative AED 1,024 million compared to a negative contribution of AED 477 million during 2009, principally driven by the Group's share of estimated losses incurred by Union Properties PJSC during the year as well as an impairment of AED 360 million recognised on the Bank's investment in this company.

Net profits for the Group were AED 2,339 million for 2010, 30% below the profits posted in 2009 of AED 3,343 million. The Board of Directors will recommend to shareholders at the Annual General Meeting a 20% cash dividend for the 2010 financial year.

Customer Loans as at 31 December 2010 (including Islamic financing) were AED 197.1 billion, declining 8% from the end of 2009.

Customer Deposits as at 31 December 2010 reached AED 200 billion, an increase of 10% over the customer deposit base as at 31 December 2009. The Bank's total capital adequacy ratio has continued to strengthen to 20.1% from 18.7% at the end of 2009. The Bank's Tier 1 capital

ratio also improved from 11.9% at 31 December 2009 to 12.8% at 31 December 2010. This increase in capitalisation was mainly due to continued retained earnings generated during the period and a reduction in risk weighted assets of 3%.

Although economic activity during 2010 remained relatively subdued, the year witnessed signs of stability and improving economic activity, confidence and credit appetite in the UAE. Emirates NBD remains optimistic about the sustainability of the expected economic recovery both globally and regionally. Furthermore, the UAE financial sector is now showing signs of emerging from the deleveraging process which commenced at the end of 2008.

Emirates NBD will focus its strategic efforts during 2011 on continuing to optimise the balance sheet and capital allocation, improving profitability and enhancing its platforms. At the same time, the Bank is expecting to accelerate its investment in growth opportunities and take advantage of the expected improving economic fundamentals.



Emirates NBD launched "Customer Day" programme.

Review of Performance

Corporate Banking

Corporate Banking delivered a resilient performance in 2010, reflecting the strength of its franchise and its position as the region's leading corporate banking business. In 2010 Corporate Banking recorded total income of AED 4,400 million through active re-pricing of the loan portfolio and a continued focus on fee generating business.

Corporate Banking's continued focus on liquidity, through dedicated efforts and roll out of new products and structures, has resulted in strong deposit growth of 13% during 2010 to reach AED 94.2 billion. The advances portfolio decreased by 7% since the end of 2009 to AED 161.1 billion.

During 2010, Corporate Banking further enhanced its product range through structured deposits, structured finance and syndication and a host of transaction banking products

to add depth to client relationships. Transaction Banking also played a key role in opening up new revenue streams of risk free non-funded products and services and is well placed to lead and support relationship teams in acquiring and deepening the Bank's wallet share with clients.

Synergies continued to realise in 2010 through integration of systems, processes and security documentation to enhance service levels and achieve cost rationalisation. Due to incentives offered for online banking to enhance efficiency, an increased number of customers have shifted base from bank counters to alternative delivery channels like 'Smart BUSINESS' and 'Trade Online'.

During 2010, Corporate Banking acted as financial advisor to structure and



Emirates NBD sponsored Dubai International Arabian Race Day at Newbury Racecourse.



Emirates NBD opened first Private Banking Centre in Abu Dhabi.

conclude a USD 1.1 billion refinancing for Borse Dubai. Additionally, the division successfully raised a USD 410 million equivalent five year multi-currency loan structured around its portfolio of diverse syndicated loans to regional corporates at an extremely competitive margin. This loan was the first of its kind in the Region and was fully subscribed by J.P. Morgan.

With a combined market share of almost a fifth of corporate assets in the UAE the Corporate Banking business is well positioned to take advantage of an improved economic outlook.

Review of Performance

Consumer Banking and Wealth Management

The Bank's Consumer Banking and Wealth Management division recorded a solid performance during 2010, achieving growth in the business and the customer base despite adverse economic conditions.

Income for the division declined by 2% in 2010 to AED 3,322 million from AED 3,387 million in the same period of 2009, principally driven by an 8% decline in net interest income. Fee income, however, increased by 19% to reach AED 940 million in 2010 mainly driven by strong growth in foreign exchange revenue, the launch of new bancassurance products and increased momentum in the Private Banking business. During the year, CWM continued its focus on reducing costs and increasing productivity, with several initiatives being launched focused on improving processes and the customer service experience. Consequently, CWM reported a 9% decline in operating costs relative to 2009 and improved its cost to income ratio by 2.5% to be among the leading benchmarks in the GCC region. Credit quality continued to be tightly managed and retail loan portfolios witnessed significant stabilisation of delinquencies during the year.

CWM's sustained focus on deposit growth during 2010 resulted in growth of 11% in customer deposits from end-2009 levels to reach AED 66.1 billion. At the same time, the business remained cautious on new underwriting.

Retail Banking

The Retail segment enjoyed healthy revenues of AED 2.9 billion against a backdrop of continued challenging economic conditions. While net interest income for the segment declined due to lower loan

balances, fee income witnessed strong growth led by foreign exchange revenues. The bank was awarded the "Best Foreign Exchange bank" award by Global Finance Magazine in 2010. Fee income was further augmented by the launch of new bancassurance products targeted to affluent, high net-worth and SME customers.

The liabilities book managed to maintain its position during 2010 while continuing to act as a feeding base for the Private Banking platform. This was supported by the launch of a number of innovative products such as Flexideposits, RegulaReturns and Smart Saver that provided customers with added value and convenience. Consequently, the cost of funds continued to drop throughout the year based on pro-active pricing management of deposit pricing at renewal.



Emirates NBD partnered with Al Fardan Exchange to offer payroll and remittance solutions.

Review of Performance

The loan portfolio witnessed significant stabilisation of delinquencies during the year and the Segment's continued cautious stance resulted in lower average balances in 2010. Nevertheless, Retail Banking continued to launch innovative products during 2010 such as Seed Capital loans and End of Service Benefits backed loans, both of which were positively received by our customers. Additionally, the Bank continued to advise customers to borrow wisely and launched a seven day return option on selected personal loans. Consequently, the Bank was pleased that personal loans were adjudged the "Best Product in the UAE" by Banker Middle East. Finally, almost AED 1 billion auto loans were securitised during the year to generate almost AED 900 million of medium term funding for the Group at competitive rates.

Emirates NBD's branch network, the largest in the country, has continued to expand with the addition of three branches during the year, taking the total to 105. Its distribution capability was further complemented by growth in its ATM network with an addition of 95 new ATMs across the Emirates taking the total ATM and SDM network to over 620.

Following the completion of the system integration late last year, 2010 saw the completion of the new Emirates NBD brand roll-out during the first quarter of 2010.

Business Banking

2010 was a transformational year for the Business Banking segment, focused on revisiting its strategy and ensuring efficient execution of



Emirates NBD celebrated the graduation of UAE National trainees from The Program for Accelerated Learning.

plans. The year saw the launch of the Emerging SME sub-segment, the launch of insurance solutions for Business Banking customers and the migration of all non-individual customers to the Business Banking platform.

Business Banking demonstrated during the year that extraordinary results are possible with the right focus and dedication. The business reported a phenomenal surge on the liabilities front with growth of more than 25%. In addition, its continued focus on fee income was evidenced by an increase of more than 30% over 2009.

Four new Business Banking centres were inaugurated during the year within the UAE. Further expansion within the GCC presence is planned for 2011, with a new centre planned in the Kingdom of Saudi Arabia during the first quarter.

Business Banking will be looking to consolidate its position during 2011 with a continued focus on increasing its share of wallet with existing customers through enhanced and broadened product offerings.

Review of Performance

Private Banking

2010 was a crucial year for the Private Banking business as the team successfully built on its market leading position. Private Banking now deploys 60 relationship managers, a strong investment office and expert teams across all key functions.

During 2010, the main focus for Private Banking was enhancing its investment platform. Discretionary portfolio management, strategic and tactical assets allocation, emerging market and MENA research, private equity advisory, real estate advisory and FX advisory are among the services that were launched during the year. Private Banking also expanded its relationships with third party providers to more than 2,000 mutual funds in its platform provided by more than 100 asset management companies globally. In order to enhance service levels, the investment team implemented a state of the art client profiling and portfolio management system and improved its fund research and diligence process.

To sustain its position as a leading international Private Bank, the Bank inaugurated its Singapore Private Banking Center during the year and further expanded the Private Banking teams in the Kingdom of Saudi Arabia and London.

The strong performance of Private Banking has been recognized by EuroMoney as Emirates NBD Private Banking has been named "Best Local Private Bank in UAE" during 2010.



HE Ahmed Humaid Al Tayar hosted Chairman and Chief Executive Officer of Goldman Sachs Group.

Review of Performance

Consumer Finance

Since its launch in 2008, Emirates Money has continued to exceed expectations. 2010 has seen Emirates Money expand its asset book by 14%, stabilise the credit delinquencies and grow its fee business. Consumer Finance continued to outperform the competition in the business loans segment and has built up a strong base for future expansion in the vehicle loans business. Additionally, a number of innovative products were launched during the year, such as loans against gold which is the first of its kind in the Region. Looking forward, Emirates Money continues to strengthen its risk management practices to expand its lending book. The business continues to have strong growth aspirations through regional expansion, with near-term plans to operate in the Kingdom of Saudi Arabia, as well as through continued product expansion and innovation.

Emirates NBD Asset Management

Emirates NBD Asset Management had a positive year despite the ongoing headwinds created by the events of the global financial crisis of 2008 and 2009. During 2010, the company maintained adequate healthy level of profitability, achieved through strict adherence to expense discipline and the ongoing development of new sources of income through an extended product offering to clients.

To enhance the global distribution platform for its investment products, the business signed further distribution agreements with a number of global platforms and independent financial advisors. In loco distribution capabilities were also established in Singapore and London as part of the execution of its revamped longer term distribution strategy. Significant benefits are expected to be realized from these initiatives in years to come.

Looking ahead, the Asset Management business is planning to launch several new investment products in 2011 and to capitalise on the substantial groundwork done to enhance the distribution capabilities of the business.



Emirates NBD received the FST 2010 award for 'System Integration project of the year'.

Investment Banking

Following the reconstitution and re-naming of the erstwhile NBD Investment Bank Ltd in January 2009, Emirates NBD Capital Ltd ("EmCap") proceeded to enhance governance and accomplish cost synergies during 2010. EmCap is now a wholly-owned subsidiary of Emirates Financial Services (EFS) PSC and has the same Board members for better alignment with the Group's strategies and plans.

Although the regional financial markets and businesses witnessed a challenging year in terms of growth and consolidation, the Investment Banking business successfully concluded a growth capital-raising transaction for a leading educational entity. It became part of a consortium to bid for the Build, Transfer & Operate (BTO) concession relating to the airport complex in Madinah in the Kingdom of Saudi Arabia. This consortium gained pre-qualification status from the authorities in the Kingdom and is currently putting together the technical and financial bid package.

Infrastructure financing and Public Private Partnership (PPP) are expected to provide rewarding opportunities in the GCC and both EFS and EmCap are gearing up in terms of competence, credentials and capabilities. Infrastructure-related equity and debt funds are also of interest to institutional and private banking clients as co-investments.

In 2010, the business advised a leading local business group and assisted them to gain exclusivity in a mergers and acquisition opportunity in the hospitality sector. Similarly, another local business group engaged us on a buy-side mergers and acquisition mandate in the food and beverage sector. The consolidation of mid-market entities is expected to gain momentum in future years, leading to a good flow of advisory business for the Investment Bank.

In a regional securitisation initiative, Investment Banking is playing a leading role in structuring and endeavouring to meet potential issuers' objectives on a limited recourse basis.



Emirates NBD received the Banker Middle East Award for Best use of Technology.

Looking ahead, in 2011, significant investment in infrastructure upgrade as well as the successful resolution of the major stress factors in the regional economies is projected to lead to more comfortable liquidity conditions in the GCC public markets. Improved investor sentiment, both in the individual and institutional segments, is expected to spur a revival of the somewhat dormant equity markets and give further fillip to better-priced and globally executed debt capital market transactions.

Therefore, we intend to strengthen the origination, research, distribution and market-making capabilities; geared to meet the scale, quality and reach of potential transactions in the pipeline.

Global Markets and Treasury

Global Markets and Treasury continued to develop products to meet customer demand as well as ensure that alternative sources of funding were utilised. The first ever auto-loan securitisation in the region was completed, raising over USD 200 million of long term funding. Other achievements include the establishment of a Commodity (Gold) trading unit and the implementation of a new FX system to reduce settlement risk.

Global Markets and Treasury gross revenue for the year remained strong at AED 701 million. This was achieved against a backdrop of sovereign and currency risk concerns in Europe and beyond.

The Asset Liability Management desk continued to maintain a strong reputation, helping ensure that the bank could continue to access liquidity even in stressed



Emirates NBD received 3 Investor Relations Grand Prix Awards.

times. In addition to the auto loan securitisation, the Global Funding desk issued a number of medium term funding transactions. The Sales Desk saw clients returning to the markets for foreign exchange products. The Trading Desk continued to perform well and generate profits across the equity, foreign exchange and interest rate markets. GMT were proud to be able to enhance the international experience of National Staff through overseas placements and training.

Looking forward to 2011, Global Markets and Treasury has identified sales and trading as key areas of growth. There are significant opportunities for higher market penetration following an enhanced product offering and greater emphasis on client/product suitability. Improving sentiment in the region along with a potential rise in interest rates will provide renewed trading possibilities as well as opportunities to provide innovative hedging solutions to clients.

Review of Performance

International

Emirates NBD's international presence extends to the Kingdom of Saudi Arabia, United Kingdom, Qatar, Jersey, Singapore, India and Iran. During 2010 all our international regulators transferred legacy licenses or granted fresh licenses to Emirates NBD and our operations successfully rebranded across all jurisdictions in February. We thank them for their cooperation and assistance in making this a very smooth transition.

During the year, the Bank was able to generate growth in business at all our overseas branches. With the Group's focus on balance sheet optimisation, a significant contribution emanated from the overseas branches in all aspects including liability growth and operating efficiency improvements.

In the Kingdom of Saudi Arabia, 2010 witnessed the achievement of significant progress across all lines of business. New products were launched in both the branch

and the Investment Bank and further growth and progress across all lines of business is expected in 2011, in tandem with the Kingdom's promising economic growth. The branch starts its eighth year of operation in the Kingdom in 2011 and, with their experience coupled with the support of the Investment Bank, the group is now well positioned to attract business offering a full range of competitive financial services.

In Qatar, the Bank continues to focus on wholesale banking activity and with the award of the 2022 World Cup to Qatar it promises to be a very exciting decade for banking in that market. Consequently, the Bank intends to revisit its strategy and explore other business opportunities that this will create not only for Qatar but for the entire region.

It was a busy year for the Bank's United Kingdom operations, initially concluding the legal merger and then moving both legacy branches on to the same operating platform. As a result of the conclusion of our legal merger in February, Emirates NBD became the first foreign bank in the United Kingdom to operate within the new liquidity regime introduced by the regulators. London is an important private banking centre and for Emirates NBD it continues to be a key strategic focus. The Jersey branch is also benefiting from the revised governance structure and being aligned with our London branch. In 2011, London and Jersey operations will migrate to the Group standard operating platform and this will further support them in achieving their anticipated growth.

On 20 July 2010, Emirates NBD opened its Singapore branch and carried out a formal inauguration in November where many dignitaries honoured us with their presence. The Far East is seen as a key partner for future growth of the Middle East and for the United Arab Emirates and Saudi Arabia in particular. The Group's presence in both makes it a natural partner of choice to capture the trade flow and synergies emanating from the Far East via our Singapore branch. Besides corporate banking and trade finance, the branch also offers private banking services in tandem with Singapore's growing reputation as a leading centre for private banking globally. In 2011 the Bank will start to build on this infrastructure and expects business to grow significantly over the next few years.



Emirates NBD opened its first Emirates Money branch in Abu Dhabi.

Review of Performance

Information Technology and Operations

With the Al Barsha Data Center project receiving the "Best Banking and Finance Technology Implementation" award from Arabian Computer News (ACN), ITO is on target to consolidate its remaining data centers and realise further cost synergies.

The pursuit of the international framework for information technology governance, COBIT (Control Objectives for Information and related Technology), continues and is resulting in more robust and efficient processes as well as positively impacting application development projects.

Group IT received certification for ISO 9001:2008 Quality Management from BSI, serving as a testimony to the continued quest for quality within the technology services function.

ITO also introduced the USSD (Unstructured Supplementary Service Data) service in 2010, which is an innovation that allows high speed interactive communication between Etisalat subscribers and the Bank, enabling customers 24x7 access to their bank accounts from any GSM handset, anywhere in the world.

During 2010 key application deliveries were focused on business enhancement and risk management, with key achievements including the FinnOne securitisation system for the retail lending portfolio, the implementation of the payment screening application in the production environment, the operational risk application for capturing and monitoring risk events and the certification of online brokerage system as compliant with regulatory requirements.

Operations activities have continued to concentrate on increasing our efficiency and throughput on banking transactions and ITO was awarded "Best In Class Excellence" in these areas from both JP Morgan and Deutsche Bank.



Emirates NBD hosted Suhoor for media representatives during Ramadan.

Human Resources

In response to the continuing challenges in the business environment, Human Resource's strategic priority in 2010 was to assist the business leadership in enhancing the workforce performance and engagement levels while optimising on employee costs. Even during these difficult times, investment in talent and leadership capability remains a key imperative, given its strategic significance to the business.

National development continues to be of top priority with as many as 565 National trainees recruited in 2010. With over 1,700 Nationals in the bank, Emirates NBD is by far the biggest employer of Nationals in the UAE banking sector. The National development programmes offered are a major factor in attracting and retaining talented Nationals in the bank.

The transformation of Human Resources with the vision to be a best-in-class service provider, which began in 2010, gathered pace in 2010. The organisation and processes were revamped to create solutions and a service driven Human Resources function. Despite this significant re-organisation, the service delivered by Human Resources to its internal customers improved significantly with reduced cost-to-service levels in 2010 as a result of the transformation initiative.



Emirates NBD opened first business banking centre in Abu Dhabi.



Emirates NBD was honoured by Dubai Police for the Bank's support to Dubai Police activities.

Network International

Revenue for Network International, the Bank's market leading card acquiring and processing business, stood at AED 372 million in 2010 which was flat compared to the same period last year, at AED 371 million. Processing revenues increased by 8% and acquiring volumes rose by 13% from the previous year.

2010 saw Network International signing a cooperation agreement with China Union Pay (CUP) to extend the latter's CUP card services to more than 20 countries in the Middle East, Africa and Western Asia. Further, Network International launched key service offerings of "pay in your currency" and "e-Top up" capability on the merchant acquiring end. These two initiatives are going to be key focus areas going forward in 2011. The company has achieved an expansion of its service offering on the processing business side to offering processing for prepaid and gift cards through a strategic technology partnership.

As at 31 December 2010, Network International remains the region's largest payment and processing service provider of credit and debit cards, providing services to more than 11,000 merchants and processing cards for more than 60 banks and financial institutions in the region.

During the month of December 2010, Emirates NBD, its current shareholder, has signed a strategic partnership agreement with Abraaj Capital, the largest private equity group in the Middle East, North Africa and South Asia region to enhance Network International's strong growth and accelerate the geographic expansion of the company's market-leading payments processing platform. Under the terms of the agreement, Abraaj Capital, through Abraaj Financial Technologies Holdings Limited, will acquire a 49 per cent stake in Network International for a price of around AED 2 billion, including a sum contingent upon attainment of



Emirates NBD awarded "Products award for Best Personal Loan" for the year 2010 by "Banker Middle East".

profitability targets and a portion financed by Emirates NBD, as is normal in such transactions. The deal is subject to relevant regulatory approvals and is expected to be finalised in the first quarter of 2011.

Review of Performance

Emirates NBD Securities

2010 was a challenging year for the brokerage industry in the United Arab Emirates (UAE) as low levels of liquidity in equity markets significantly impacted performance. Despite these conditions, Emirates NBD Securities was able to sustain its position among the top three brokerage firms in the Dubai Financial Market (DFM) and top ten in the Abu Dhabi Securities Exchange (ADX). Additionally, the business launched operations in a new market – DGCX (Dubai Gold and Currencies Exchange) to provide better investment opportunities to investors. Another important milestone that occurred during the year was the merger of DFM and NASDAQ Dubai, which provided investors the convenience of operating through one market while at the same time dealing with two different exchanges.

During 2010, Emirates NBD Securities concentrated on providing its clients with additional value from existing services such as enhancing security features while accessing the online



Emirates NBD was awarded the NetworkWorld Middle East Award 2010 for "Data Center Project of the Year".

trading platform. Furthermore, the business is in the process of further enhancing and broadening its product and service offering that is expected to reap benefits in the years to come.



Emirates NBD signed a partnership agreement with Emirates Airlines to expand range of payment channels.



Emirates NBD celebrated its Group wedding ceremony.

Group Risk Management

Group Risk Management continued to proactively advance its risk management as well as its compliance capabilities. Emirates NBD's Board Committees (Board Risk Committee - BRC, Board Credit and Investment Committee - BCIC, Asset Liability Committee - ALCO and the Executive Committee have endorsed and co-opted to entrench enhanced risk management capabilities across different business lines and processes.

Risk Governance

Emirates NBD Group Risk Management is instrumental in identifying all significant risks and risk drivers, measuring and managing such risks against the backdrop of the changing macro-economic conditions and assessing these as part of a forward-looking strategy.

The General Manager Risk (CRO) is responsible for all quantifiable risks and for implementing the risk policies as required by the risk strategy throughout the Group. GM Risk reports on the overall risk landscape to the BRC on a quarterly basis. BRC comprises of directors drawn from Emirates NBD Board along with the management attendees namely CEO, CFO and CRO. BCIC is vested with powers to delegate lending authority to Senior Management who have further sub-delegated specific lending authority to facilitate the business. The Group ALCO comprises of CEO, heads of businesses along with CFO and CRO and is responsible for proactively managing the Balance Sheet optimisation and liquidity management.

Group Risk

Group Risk which reports to CRO is responsible for the timely reporting, pro-active risk management, ensuring compliance with regulatory provisions and leading the Bank towards Basel II/III implementation.

Economic Capital & Risk Strategy Development

In 2010, the Group continued to advance its frameworks for Economic Capital measurement and developed an integrated stress testing framework, which covers capital, funding and financial performance. Both frameworks proved to be key analytical tools for planning and management.

As part of the Internal Capital Adequacy Assessment Process (ICAAP) the Group submitted a forward-looking, market-leading Pillar 2 Report to the Central Bank. In parallel, the Group commenced the integration of Economic Capital as an enabler and decision support tool.

Credit Risk Management

Credit Risk - Corporate Banking

The year 2010 was a challenging year and a test of the Bank's credit risk management strategy and policies. With the exception of a few known systemic issues the results showed strong evidence of sound credit risk management practices being adopted by the Group.

Credit exposures remained diversified across economic sectors and were maintained within the regulatory and self imposed ceilings. In addition to the regulatory ceiling on real estate lending (20% of total Bank's deposits), credit ceilings have been imposed by the Bank for all other economic sectors and are monitored against shareholder funds and total lending assets.

During the course of 2010, the Bank increased its vigilance of high risk sectors and timely remedial measures were in place to maintain portfolio quality.

Credit risk is managed by formulating credit policies and procedures, setting limits for counterparties, countries and sectors which are regularly reviewed, updated and consistently applied. Asset distribution desk diversifies risk by distribution of credit risk to other banks or counterparties.

Credit is sanctioned or renewed based on credit worthiness of the borrowers using qualitative and quantitative assessment criteria as part of the overall rating process. Documentation and collaterals are obtained in accordance with the approval terms. Collaterals are revalued at regular intervals in accordance with credit policy to assess fair value against exposures.

The RAROC framework was refined during the year to ensure credit pricing is aligned with the risk underwritten. A new module was developed and implemented within the facility application system to capture collateral information which feeds into the RAROC framework.

Credit Risk - Consumer Banking & Wealth Management

The tightening of credit policies post the financial crisis led to selective and controlled lending and asset underwriting. The curtailing of credit that led to substantial portfolio de-growth is now showing signs of revival. The strategy in 2010 remained one of consolidation and sustenance of portfolios. Group Retail Credit proactively monitored portfolios and devised strategies considering the external environment and the Bank's focus areas on growth in terms of selected geographies and segments.

The year 2010 was successful as "One Bank One View" was achieved with combination of portfolios of the two merged entities. Further, the Bank effectively integrated the Application as well as Behavioural scorecards in its underwriting process to support its retail lending. This enabled the Bank to distinguish between High Risk versus Low Risk customers and ensuring credit granting over and above our comprehensive and robust underwriting process and credit policy acceptance criteria.

Many insightful Management Information Systems were introduced to enable the Consumer Banking and Wealth Management Department to take proactive risk management decisions and make qualified offers. The Bank, with the aid of sophisticated tools, harnessed the asset growth selectively by leveraging on its existing customers through better risk identification and endeavored credit granting with adequate loss absorption capabilities and customer level exposure aggregation insights.

Significant progress was also made to proactively manage risk by identifying employers and strategising based on salary credits trends, portfolio performance and also overall market information on its target market list of employers.

Furthermore, various portfolio management measures and sales strategies were driven based on portfolio trends to ensure a healthy mix of low risk segments for Retail Banking.

The Bank also devised various test programmes as a forward looking step for segment engagement and asset growth. The Bank's outlook in 2011 in asset products is optimistic and is planning expansion cautiously through champion challenger strategies.

Internal Rating Systems Development

Internal rating systems are gradually replacing the manual underwriting processes within Emirates NBD. Improved data quality has also helped in the redevelopment and recalibration of the rating systems and scorecards thereby improving their predictive power. During the year, the focus moved from development and implementation of internal rating systems to ensuring their effective use in customer lifecycle management. Retail business especially benefitted from the implementation of various application and behaviour scorecards. These scorecards are not only used in screening new customers but are also used as an effective tool for credit limit management (increase or decrease), loan top ups and marketing and cross selling strategies.

An independent Basel II validation exercise was completed during the year to pave the way for IRB application in due course.

Portfolio Impairment Provisions (PIP)

The group continues to set aside collective impairment provisions in line with international accounting standards.

The stricter underwriting standards implemented since 2008 helped the improvement in credit quality of the retail portfolios. As a result, collective impairment provision requirement for the retail book reduced substantially during the course of the year,

Owing to uncertainty in the economic recovery and its potential effects on the UAE economy, the Bank continued to set aside additional reserves for collective impairment provisions for the wholesale portfolios. We expect this level of provisioning to provide reasonable cushion, should credit markets stay depressed in the coming year.

Basel II/III Programme

The implementation of Basel pronouncements has been a significant driver in recent years for the way the Group manages its risks and uses it as a source of competitive advantage. In recent years, significant resources have been committed to develop new risk management tools and foster and implement them in business processes. Since 2009, such risk based methodologies are being gradually adopted for business underwriting, customer/product pricing, expected loss estimation and capital management.

During 2010, the Bank successfully prepared itself for IRB implementation under Pillar I and is actively engaging the UAE Central Bank for necessary applications/permissions. Pillar II and III reporting is already in place.

Liquidity and Market Risk

The management successfully mitigated the market turbulence through a variety of measures such as effective diversification of funding sources, constant build up of Liquidity Buffers in its Asset Liability Management (ALM) portfolio and maintaining effective and open communication with key stakeholders such as Customers, Capital Markets and Regulators.

Overall Liquidity risk has mitigated compared to previous years and during the year ALCO was focused on yield optimisation. The ALM unit within Risk Management provides timely support and advice to ALCO.

Group Market Risk worked closely with Global Markets and Treasury, and other business units to monitor and mitigate market risk. Historical Simulation and Monte Carlo Simulation Value-at-Risk (VaR) models are implemented for Foreign Exchange, Interest Rate Derivatives, Equity and Bond Trading desks.

Group Market Risk developed and implemented structured products pricing models for the Treasury Sales business. This development facilitated the implementation of the Potential Future Exposure (PFE) framework for complex products on an ongoing basis. Currently both sets of models – structured product pricing and PFE – are in place.

Operational Risk

Group Operational Risk continued working closely with all of the Bank's business lines and subsidiaries during the year to raise awareness of operational risk. Key risks across businesses and units are identified and discussed at the Group's Operational Risk & Compliance Committee (ORCC) with representatives from all business lines, major support units, and subsidiaries.

The collection and reporting of operational risk events is established as a firm process since 2009. The practice of running a 'Control-Risk Self Assessment' (CRSA) prior to the launch of any new or amended initiative supported the Bank's units in identifying and assessing embedded risks. A new policy governing the outsourcing of banking activities has been introduced complementing the existing risk management initiatives.

Furthermore, Group Operational Risk continued playing a major role in reviewing processes related to the integration of Emirates Bank and NBD and proved to be successful in introducing adequate mitigating controls. Thorough independent reviews of new IT systems and applications in 2010 helped to identify IT Security risks prior to implementation of any new system.

Group Compliance

The Group improved its overall compliance awareness, monitoring, reporting and controls during 2010. There was an increased emphasis on sanctions monitoring and controls as a result of a myriad of sanctions regulations being implemented in 2010 against Iran.

Training and awareness was enhanced in 2010 through the initiation of Anti-money Laundering Computer Based Training delivered by our specialist training subsidiary, Global Training Centre. To further enhance compliance awareness amongst management and staff, an inaugural Quarterly Compliance Newsletter, Beyond the Borders, was developed and circulated by the Group Compliance team, covering pertinent regulatory and compliance developments impacting the jurisdictions in which the Group operates.

Two key policies were approved in 2010 to strengthen the compliance monitoring of the Group, namely the Compliance Monitoring Programme and the Compliance Breaches Policy. The Compliance Monitoring Programme aims to ensure a consistent, comprehensive and robust compliance monitoring programme across the Group in order to identify any areas of weakness and highlight these to management for the required corrective action to be taken. The Compliance Breaches policy guides management and staff on their responsibilities with respect to the identification and reporting of breaches.

Group Compliance is continuously striving to improve and strengthen the Group's compliance framework and controls. During 2010 it embarked on a process to identify improved systems to enhance our monitoring and during 2011, it anticipates embedding the Compliance Monitoring Programme and strengthening the automated monitoring systems.

The Board and its Committees

Board of Directors

Emirates NBD's Board of Directors meets six times a year at least and is comprised of 10 prominent members of the local business community, all leaders in their industries.

Mr. Saeed Yousuf is the Company Secretary for the Board and its Committees.

The Board's mandate covers a formal agenda consisting of overall strategy and management, corporate structure, financial reporting and controls, internal controls, approval of the Annual Report, approval of dividends and Group risk management. There are independent non-executive directors on the Emirates NBD Board. The Group defines 'independent' as having no perceived or real conflicts of interest with any shareholder group or business partner. (Refer to page 3 for the Board of Directors)

Governance - Board Evaluation Activities

Emirates NBD introduced the Board Evaluation Initiative (BEI)* as part of its overall professional development programme and in order to align with international best practices in corporate governance.

The Initiative typically comprises of a quantitative survey and in-depth, one-on-one interviews with Board members. Emirates NBD's decision to also include the executive management team in the evaluation and interview process enabled the bank to successfully cascade the value of the exercise throughout the organisation swiftly, while synchronising the efforts of both the Board and management. This makes Emirates NBD the first bank in the UAE to engage in such a comprehensive Board evaluation exercise.

The BEI process was managed internally by the Company Secretary Office with the support of an external consultant specialised in corporate governance. The process will allow Emirates NBD to track progress over time and to examine the effectiveness of the Board from a structured framework anchored in Emirates NBD's values. The results from the 2010 BEI provide both an action plan for 2011 and beyond, in addition to a baseline for continually improving Board effectiveness (including comparing Emirates NBD with regional and global benchmarks). It also identifies opportunities to better deliver on the aspirations of all Emirates NBD stakeholders in the ever-changing market - safeguarding welfare and accelerating economic efficiency.

There are another four Board Committees that meet regularly to govern the Group's activities on behalf of its stakeholders:

Board Audit Committee

| Name | Position |
|---------------------------------------|----------|
| 1) Mr. Khalid Jassim Kalban | Chairman |
| 2) Mr. Fardan Ali Fardan Alfardan | Member |
| 3) H.E. Hamad Mubarak Buamim | Member |
| 4) Mr. Hussain Hassan Mirza Al Sayegh | Member |

This Committee meets quarterly, or more frequently when required. The Committee has the responsibility for ensuring quality control in the Group's financial reporting and compliance process. The Audit Committee manages internal financial reporting control systems and the associated auditing process. It is also the Group's committee for monitoring legal and regulatory compliance as well as the internal codes of conduct.

Board Credit and Investment Committee

| Name | Position |
|-----------------------------------|----------|
| 1) H.E. Ahmed Humaid Al Tayer | Chairman |
| 2) Mr. Fardan Ali Fardan Alfardan | Member |
| 3) H.E. Abdulla Ahmed Lootah | Member |
| 4) Mr. Khalid Jassim Kalban | Member |
| 5) H.E. Khalid Juma Al Majid | Member |

This Committee meets weekly to review and manage the credit exposure and investment portfolio of the Group.

Board Risk Committee

| Name | Position |
|---|----------|
| 1) H.E. Hamad Mubarak Buamim | Chairman |
| 2) Mr. Hussain Hassan Mirza Al Sayegh | Member |
| 3) H.E. Abdulla Sultan Mohamed Al Owais | Member |
| 4) Mr. Buti Obaid Buti Al Mulla | Member |

The overall corporate governance framework of the Emirates NBD Group is directed by this Committee. The Committee also has responsibility for all risk management procedures. The Committee, which meets at least quarterly, oversees Basel II related activities and provides guidelines for capital management and allocation.

Board Nomination and Remuneration Committee

| Name | Position |
|---|----------|
| 1) Mr. Buti Obaid Buti Al Mulla | Chairman |
| 2) H.E. Abdulla Ahmed Lootah | Member |
| 3) H.E. Abdulla Sultan Mohamed Al Owais | Member |
| 4) H.E. Khalid Juma Al Majid | Member |

The review of strategic Human Resources decisions made by the Group, including remuneration issues, are the focus of this Committee which conducts its meetings on a quarterly basis.

Executive Committee Team

The Executive Committee (EXCO) team collectively monitors the performance of the Group and makes Group level decisions within authority limits delegated by the Board of Directors (BoD). Such decisions involve the day-to-day running of the Group, its strategic growth and the implementation of any decisions by the Board. This senior management team meets twice a month.

*BEI is a GCC Board Directors Institute proprietary tool developed to facilitate increasing Board effectiveness in the region.

Beyond Banking

Since its creation, Emirates NBD has set a clear Corporate Social Responsibility (CSR) strategy making it one of the most active financial institutions playing a role in supporting the community it operates within. This is a role Emirates NBD takes very seriously and considers it beyond a merely philanthropic angle. The Group is actively involved in leading initiatives, both internally and externally.

Throughout the year, the Group continued its efforts to support its priority causes: charity, education, environment, culture, art, social and sport. These areas guide all Emirates NBD CSR activities. Such activities in 2010 included participation in charitable donations and supporting sponsored events, awareness campaigns, mentoring and knowledge sharing programmes.

The Group continues to be an active participant and supporter of charitable donations, awareness campaigns, mentoring and knowledge sharing programmes. Emirates NBD supports a number of local charities and community welfare organisations, such as

Rashid Pediatric Therapy Centre, Al Noor Centre for Children with Special Needs, Dubai Autism Centre, Beit Al Kheir Society and Emirates Society for the Rehabilitation of the Blind. The Group is also a founding member of the Emirates Environmental Group. Emirates NBD is also a major contributor to the Dubai Cares Campaign.

The Group also continued its efforts to boost its Emiratisation drive and launched numerous campaigns to attract potential UAE National talents, train them and retain them in line with its strategy to support the local community and fulfill its role as an employer of choice among UAE Nationals. Emirates NBD continued to identify skills and potential career development by designing custom training and development programmes fitted to further develop its human resources skills.

Emirates NBD's high profile "Al Tomooh Finance Scheme" went from strength to strength in 2010. Al Tomooh supports local entrepreneurs and small businesses and has achieved significant progress during the year through expanding the reach of its financial services to cover all the emirates of the UAE. So far, more than AED 40 million worth of financing has helped in establishing over 118 new UAE National-owned businesses.

The Emirates NBD Pearl Museum continued to receive high profile delegations throughout the year from around the world and is continuously receiving students from various educational institutions who are seeking an informative experience into one of the most important aspects of the UAE's history, culture and heritage.



Emirates NBD signed a Memorandum of Understanding with the Community Development Authority.



Emirates NBD inaugurated projects financed by Al Tomooh Scheme for Small National Businesses.



Emirates NBD launched a staff volunteer program.

Management



Rick Pudner
Chief Executive Officer
Emirates NBD



Abdul Wahed Al Fahim
Deputy Chief Executive Officer



Abdulla Qassem
Group Chief Operating Officer



Suhail Bin Tarraf
General Manager
Human Resources



Jamal Bin Ghalaita
Deputy Chief Executive Officer



Sulaiman Al Mazroui
General Manager
Group Corporate
Communications



John Eldredge
General Manager
Global Markets and Treasury



Surya Subramanian
Chief Financial Officer



Rajan Kheterpal
General Manager Risk



Saeed Yousuf
Company Secretary and General
Manager Corporate Services



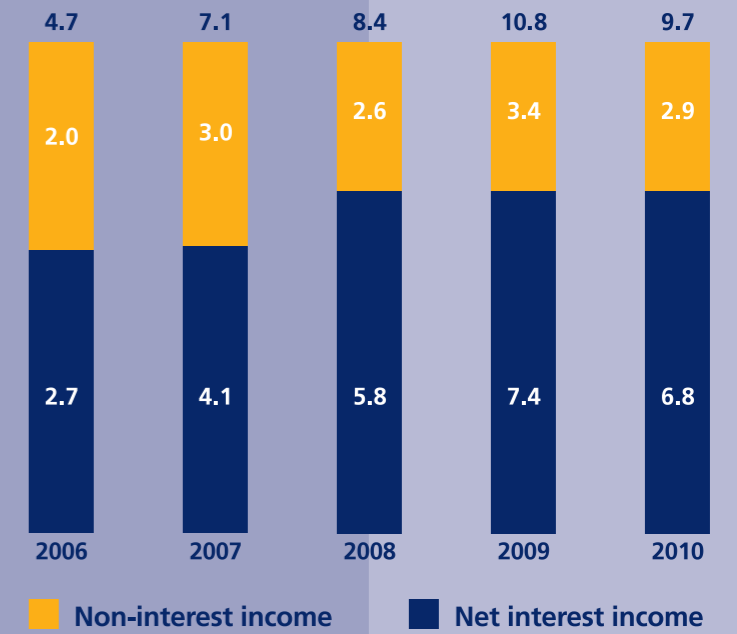
Jan Hendrik Kraus
General Manager Integration and
Head of Group Strategy



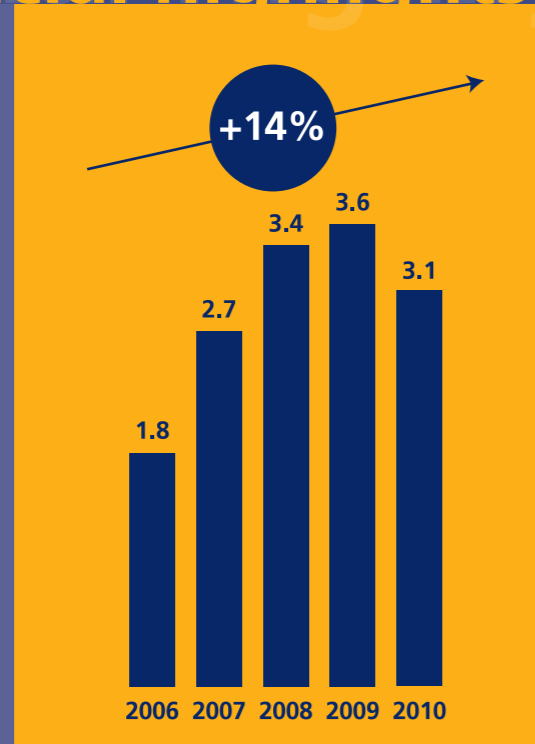
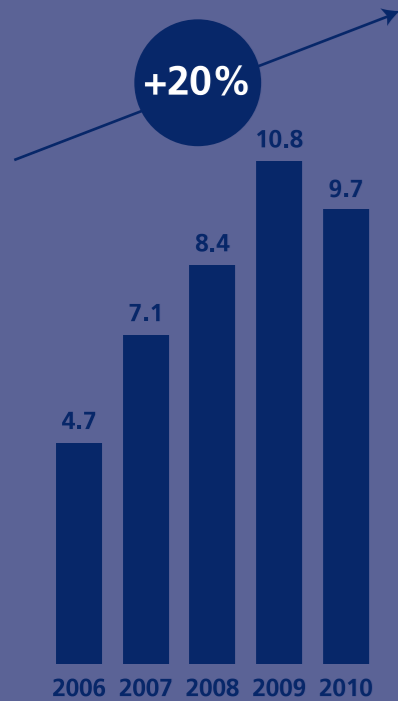
Suresh Kumar
Chief Executive Officer
Emirates NBD Capital

Profit and Balance Sheet Growth in Recent Years

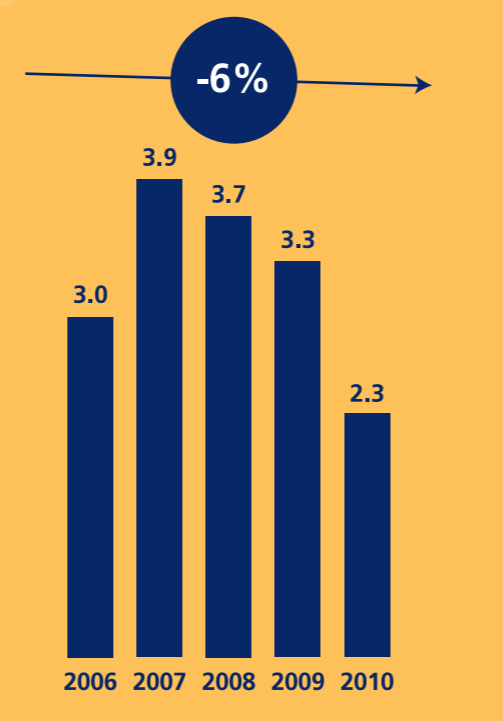
Sources of Operating Income (AED Billion)



Financial highlights

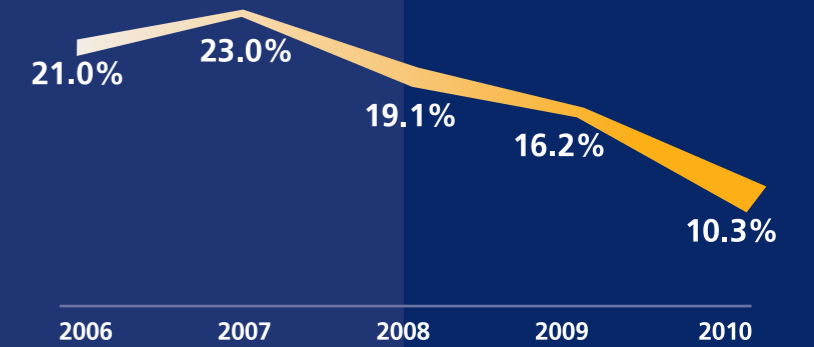


▲ Revenues and Costs (AED Billion)

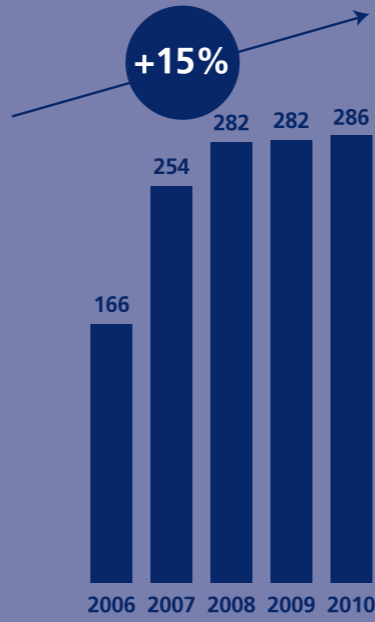


▲ Net profits (AED Billion)

Return on Equity (%)

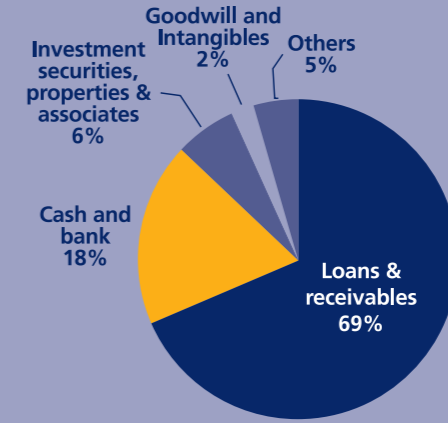


Profit and Balance Sheet Growth in Recent Years

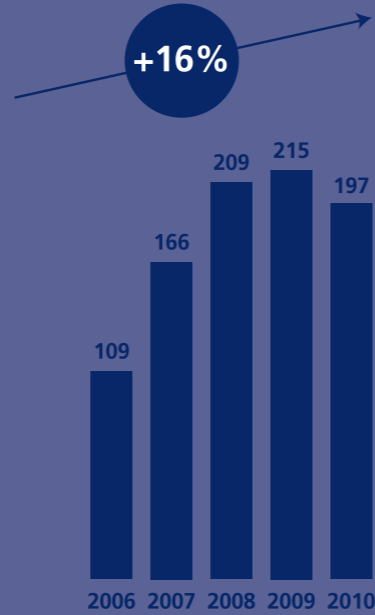
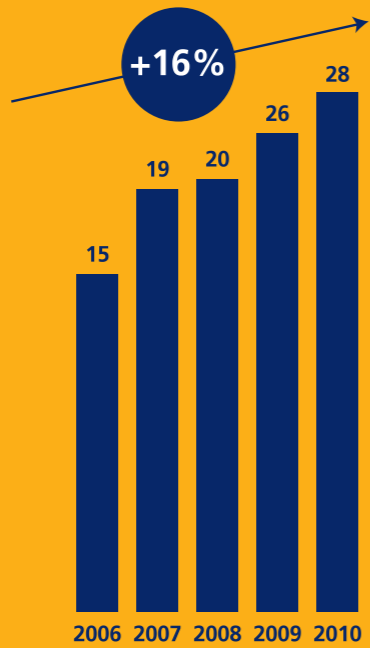
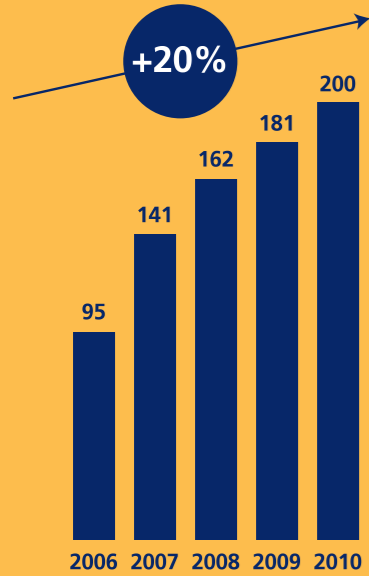
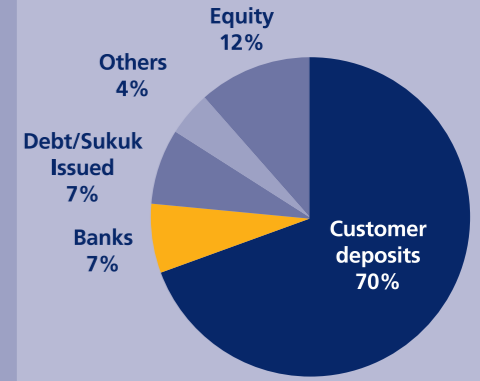


Balance Sheet Analysis (%)

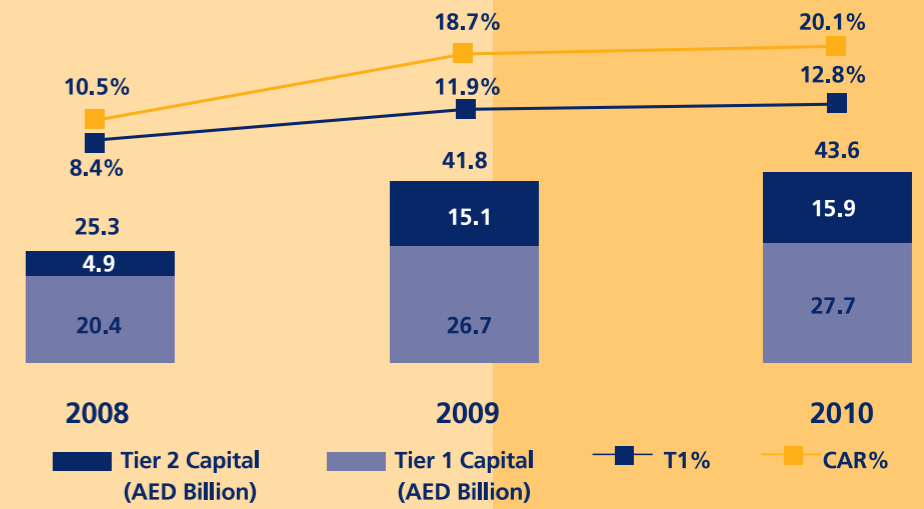
Assets



Liabilities and Equity



Capitalisation under Basel II (AED Billion)



▲ Deposits and Equity (AED Billion)

▲ Assets and Loans (AED Billion)

Emirates NBD Branches and Contacts

EMIRATES NBD

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Deira, Dubai.
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(Corporate Sales)
+971 4 701 4433
(Money Markets)
Fax: +971 4 225 6156
(Treasury General)
+971 4 223 0031
(Corporate Communications)
Reuters Dealing Code: EBIU
Internet: www.emiratesnbd.com

Corporate Banking Units

1 Large Corporate Banking Unit located in Dubai
9 Corporate Banking Units:
- 6 located in Dubai
- 1 located in Abu Dhabi
- 1 located in Al Ain
- 1 located in Sharjah
1 Business Banking Unit located in Dubai
1 Liability Management Unit located in Dubai
1 Specialised Business Unit located in Dubai to handle:
- Institutional and International Banking
- Debt Capital Markets (IIB & DCM)
1 Transaction Banking Unit located in Dubai to handle:
- Cash Management
- Factoring business
- Trade advisory services
- Escrow account services
1 Trade Finance Processing Centre (ETFS) located in Dubai

Retail Banking Branches

Abu Dhabi

Abu Dhabi Main
Al Muhairy Centre
Dalma Mall
Electra Street
Hazza Bin Zayed
Khalidiya
Muroor
Mussafah
Najdah
Qariyat Al Beri
Tourist Club

Al Ain

Al Ain Main
Al Ain Mall
Al Bawadi Mall

Ajman

Ajman Main

Dubai

Al Barsha
Al Faheedi
Al Ittihad
Al Karama
Al Maktoum
Al Muraqqabat
Al Qassimiya
Al Qiyadah
Al Quoz
Al Qusais
Al Ras
Al Rashidiya
Al Sondos Tower
Al Souk
Al Taawun
Al Towar
Al Awir
Al Mizhar
Al Mamzar

Al Shindaga Market
Arabian Plaza
Baniyas Square
Bank Street
Burj Al Arab
Burjuman Tower
Burj Khalifa Residence
Convention Centre
Deira
Deira City Centre
Dubai Airline Centre
Dubai Airport Free Zone
Dubai Courts
Dubai Festival City
Dubai Media City
Dubai Police Academy
Dubai Festival City
Dubai Healthcare City
Dubai International Airport
Dubai Mall
Dubai Marina
Dubai Marina Mall
Dubai Media City
Dubai Outlet Mall
Dubai Silicon Oasis
Emirates Tower
Emaar Business Park
Emirates Airline
Emirates Mall
Galleria
Green Community
Group Head Office
Hamriya
Hatta
Ibn Battuta Mall
Internet City
Jebel Ali Free Zone
Jebel Ali
Jumeirah Beach Rd
Jumeriah
Jumeirah Beach Walk
Mall of the Emirates
Karama Shopping Complex

Mankhool
Mena Seyahi
Mirdiff
Mizher Mall
Muhaisnah
Nad Al Shiba
Oud Metha
Ramoul
Satwa
Sheikh Zayed Road
Tower
Union Square
World Trade Centre
Old Town
Ras Al Khor
Souq Madinat Jumeirah
Times Square
Umm Suqueim
Wafi City

Fujairah

Fujairah Main

Ras Al Khaimah

Ras Al Khaimah Corniche
Ras Al Khaimah Main

Sharjah

Samnan
Sharjah Industrial
Sharjah Main
Sharjah City Centre
Sharjah Airport

Umm Al Quwain

Umm Al Quwain

Priority Banking Locations

Abu Dhabi

Abu Dhabi Main
Al Muhairy Centre
Al Muroor
Al Najdah
Khalidiya
Mussafah
Qaryat Al Berri
Tourist Club

Al Ain

Al Ain Main

Ajman

Ajman Main

Dubai

Al Barsha
Al Maktoum
Al Quasis
Al Ras

Al Souk
Bank Street
Burj Al Arab
Burj Khalifa Residence
Deira
Dubai Festival City
Dubai Mall
Emirates Airline HQ
Galleria
Green Community
Group Head Office
Ibn Battuta Mall
Jebel Ali
Jumeirah Beach Road
Jumeirah Beach Walk
Jumeirah
Mankhool
Mirdiff
Mizhar Mall
Oud Metha
Satwa
Sheikh Zayed Road
Tower
Umm Suqueim
World Trade Centre

Fujairah

Fujairah Main

Ras Al Khaimah

Ras Al Khaimah Corniche
Ras Al Khaimah Main

Sharjah

Sharjah City Centre
Sharjah Industrial
Sharjah Main

Pay Offices

Airport Pay Office (8 booths)
Port Rashid (2 booths)
Terminal 3 Pay Office (2 booths)

SME Business Centres

Abu Dhabi
Al Quoz
Ittihad
Jebel Ali
Satwa
Sharjah
Sondos

Emirates Money

Abu Dhabi
Satwa
Deira

Private Banking Centers

Abu Dhabi

Khalidiya

Dubai

Burj Al Arab
Dubai Festival City - Festival Tower
Emirates NBD Head Office

Jersey

Jersey Channel Island

London

London Branch

Singapore

Singapore Land Tower

KINGDOM OF SAUDI ARABIA

Emirates NBD

Riyadh Branch
Al Mas Centre, King Fahd Road
Olaya, P.O. Box: 8166
Riyadh 11482, Saudi Arabia
Tel: +9661 201 1111
Fax: +9661 201 2921
Email: feedbacksa@emiratesnbd.com
Mohammad Al Hegelan, General Manager

Emirates NBD Capital LLC - KSA

Mansouriah Bldg. 1st Floor,
Prince Mohammed Bin Abdulaziz Road (Tahliah)
P.O. Box: 341777 Riyadh 11333 KSA
Tel: +9661 299 3900
Fax: +9661 299 3955
Email: AymanMA@emiratesnbd.com.sa
Ayman Al Aedan, Acting CEO

IRAN

Emirates NBD

Iran Representative Office
11th Floor, Bucharest Tower
Corner of 9th Str., Shaheed Ahmad Qasir Ave. (Ex- Bucharest)
P.O. Box: 15137 – 46511 Tehran – Iran
Tel: +9821 8872 9672
Fax: +9821 8855 3887
Email: mojdehin@emiratesnbd.com
Mr. Noori Mojdehi, Chief Representative

QATAR

Emirates NBD

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QFC Tower, 6th Floor, 602, West Bay
P.O. Box: 24297,
Doha, Qatar
Tel: +974 4 4967238
+974 4 4967241
Fax: +974 4 4967243
Email: gillesa@emiratesnbd.com
Andre Gilles, Country Manager

INDIA

Emirates NBD

India Representative Office
812 'Meadows', 8th Floor,
Sahar Plaza Complex, Sir M.V. Road (Andheri-Kurla Road)
Andheri (East), Mumbai 400059
Tel: +9122 6741 4600 / 01 / 02 / 04
Fax: +9122 6741 4603
Email: sunilgulati@emiratesnbd.in
Mr. Sunil Gulati, Chief Representative

SINGAPORE

Emirates NBD

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50 Raffles Place # 21 - 06
Singapore Land Tower
Singapore 048623
Tel: +65 6438 7868
Fax: +65 6438 7870
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Dr. Brian Shegar, General Manager

UNITED KINGDOM

Emirates NBD

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3rd Floor, 2 Basil Street, Knightsbridge, London SW3 1AA
Tel: +44 (20) 7838 2222
Fax: +44 (20) 7581 0575
Email: steele-bodgerd@emiratesnbd.com
Duncan Steele-Bodger, Country Head UK & Jersey

CHANNEL ISLANDS

Emirates NBD

Jersey Branch

C/o Standard Bank House
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Tel: +44 (20) 7838 2222
Fax: +44 (20) 7581 0575
Email: steele-bodgerd@emiratesnbd.com
Duncan Steele-Bodger, Country Head UK & Jersey

Emirates NBD Trust Company

(Jersey) Limited

C/o RBC Trust Company (International Limited)
La Motte Chambers, St. Helier
Jersey Channel Islands JE1 1PB, Jersey
Tel: +44 (0) 153 4501 000 | Direct: +44 (0) 153 4501 566
Fax: +44 (0) 153 4501 926
Email: gerard.chinniah@rbc.com
Gerard Chinniah, Director

Emirates NBD Fund Managers

(Jersey) Limited

C/o Standard Bank House
P.O. Box: 583, 47-49 La Motte Street, St Helier Jersey JE4 8XR
Tel: +44 (0) 153 4881 188
Email: deonv@emiratesnbd.com
Standard Bank Fund Administration, Jersey
Deon Vernooy, Director

EGYPT

Network Processing Company (NPC)

55, Alkods Alsherif St., Mohandesseen
12411, Cairo EGYPT
Tel: +201 221 34551
Email: hshawarby@npcegypt.com
Hamid Shawarby, Chief Executive Officer

EMIRATES ISLAMIC BANK PJSC

Head Office - Dubai Festival City,
Office Tower, 13th floor
P.O. Box: 6564, Deira, Dubai, UAE

Tel: +971 4 701 5210
(General)
+971 4 209 2233
(Dealers)
+971 4 213 1561
(Corporate)
Fax: +971 4 224 0737
(Corporate)
+971 4 222 8432
(Operations)
+971 4 222 7371
(CEO)
Telex: 46074 MEBNK EM
(General)

E-mail: efayez@emiratesislamicbank.ae
Web: www.emiratesislamicbank.ae

Ebrahim Fayez Al Shamsi,
Chief Executive Officer

Branches in the UAE

Abu Dhabi
Abu Hail
Ajman
Al Ain
Al Diyafa Road
Al Garhoud
Al Mutaradh
Al Khalidiya
Al Khaleej Centre
Al Mizhar
Al Riqqa
Al Twar
Bur Dubai
Fujairah
Halwaan
Jebel Ali
Jumeirah Villa
Khorfakan
Main Branch
Media City
Muwaileh
Nad Al Hamar
Oud Metha
Qasimiyah
Ras Al Khaimah
Sharjah
Sharjah Corniche
Sharjah Court
Sheikh Zayed Road
Tourist Club Area
Umm Al Quwain
Umm Suqeim

Corporate Banking Units in the UAE

Dubai
Sheikh Zayed Road
Jebel Ali
Abu Dhabi
Al Ain
Sharjah

NETWORK INTERNATIONAL LLC

Burjuman Business Tower Level 12
P.O. Box: 4487 Dubai, UAE
Tel: +971 4 303 2431
(General)

Fax: +971 4 303 2480
(Management)
+971 4 342 0392
(Help Desk)

Call centre Tel: + 971 4 316 0182 /3
(Authorisation)

Call centre Tel: + 971 4 316 0405
(Fraud & PRM)

Call centre Fax: +971 4 343 0481
(Authorisation)

Telex: 46150 EBICSD EM
E-mail: nihelpdesk@network.ae
merchanthd@network.ae
www.network.ae

Ramkumar Chari, Chief Executive Officer

DINERS CLUB UAE LLC

P.O. Box: 777, Dubai, UAE
Tel: +971 4 316 0355
(General)
Fax: +971 4 343 0481
(Customer Service)
+971 4 316 0355
(Chargeback)

Authorisation for
Diners Club: +971 4 316 0183

Authorisation
Fax: + 971 4 343 0481

Emirates NBD
Call centre: +971 600 54 0000

Fax: +971 6 577 0775
Telex: 46150 EBICSD EM

E-mail: hamad.buamim@dubaichamber.ae
H.E. Hamad Mubarak Buamim, Chairman

NATIONAL GENERAL INSURANCE

COMPANY PJSC

P.O. Box: 154, Dubai, UAE
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+971 4 222 2334

Fax: +971 4 228 0601
E-mail: abdulzahraa@emiratesbank.ae

Dr. Abdul Zahra Abdullah Ali,
Chief Executive

UNION PROPERTIES PJSC

P.O. Box: 24649, Dubai, UAE
Tel: +971 4 885 1555
Fax: +9714 8852666
E-mail: khalid.aljarwan@up.ae

Khalid Al Jarwan, General Manager

EMIRATES NBD SECURITIES L.L.C.

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Dubai, UAE

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Call Centre: +971 4 303 2222

Fax: +971 4 331 0247
+971 4 329 5937

E-mail: brokerage@emiratesbank.com

Abdulla Al Hosani, General Manager

BUZZ CONTACT CENTRE SOLUTION

L.L.C.

P.O. Box: 777, Dubai, UAE
Tel: +971 4 316 0123
Fax: +971 6 577 0775
E-mail: rameshc@emiratesnbd.com
Ramesh C, Head - Call Centre

EMIRATES MONEY CONSUMER

FINANCE L.L.C.

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Fax: + 971 4 232 9042
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Vikas Thapar, General Manager

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Fax: +971 4 232 9039
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Ali Rashed Al Kaitoob, General Manager

EMIRATES NBD CAPITAL LTD.

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Gate, East Wing, Level 4, Dubai, UAE
Tel: +971 4 303 2800
Fax: +971 4 325 4332
E-mail: sureshk@emiratesnbd.com
Suresh Kumar, Chief Executive Officer

EMIRATES FINANCIAL SERVICES PSC

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First Floor, Dubai, UAE
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E-mail: sureshk@emiratesnbd.com
Suresh Kumar, Chief Executive Officer

Emirates NBD Asset Management Ltd

Tel: +971 4 370 0022
Fax: +971 4 370 0034
E-mail: deonv@emiratesnbd.com
Deon Vernooy, Senior Executive Officer

E.T.F.S L.L.C.

P.O. Box: 46046, Dubai, UAE
Tel: +971 4 237 3344
Fax: +971 4 237 3010
E-mail: graham.clarke@etfs.ae
Graham Clarke, General Manager

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

| <u>ASSETS</u> | <u>Notes</u> | <u>2010 AED 000</u> | <u>2009 AED 000</u> |
|---|--------------|-------------------------|-------------------------|
| 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 |
| <u>LIABILITIES</u> | | | |
| 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 |
| <u>EQUITY</u> | | | |
| Issued capital | 24 | 5,557,775 | 5,557,775 |
| Treasury shares | | (46,175) | (46,175) |
| Tier 1 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

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 |
| 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.
The independent auditors' report on the Group consolidated financial statements is set out on pages 5 and 6.

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.
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 | | | | | | | Non-controlling interest AED 000 | Group total AED 000 | | |
|---|---|-------------------------|------------------------------|-------------------------------|-------------------------------------|------------------------|----------------------------|----------------------------------|---------------------|---------------------------|---------------|
| | 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 |
| 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. The independent auditors' report on the Group consolidated financial statements is set out on pages 5 and 6.

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.

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

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.

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

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.

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

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 recognised 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.

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

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.

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

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.

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

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.

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

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.

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

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.

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

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
FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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

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.

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

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.

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

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.

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

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.

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

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.

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

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.

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

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.

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

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.

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

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

| | Local AED 000 | Foreign AED 000 | Total AED 000 |
|------------------------------------|------------------|--------------------|------------------|
| <u>31 December 2010</u> | ----- | ----- | ----- |
| 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 |
| | ===== | ===== | ===== |

| | Local AED 000 | Foreign AED 000 | Total AED 000 |
|------------------------------------|------------------|--------------------|------------------|
| <u>31 December 2009</u> | ----- | ----- | ----- |
| 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
FOR THE YEAR ENDED 31 DECEMBER 2010

6 LOANS AND RECEIVABLES

| | 2010 AED 000 | 2009 AED 000 |
|---|-----------------|-----------------|
| (a) <u>By type</u> | ----- | ----- |
| 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].

| | 2010 AED 000 | 2009 AED 000 |
|-----------------------|-----------------|-----------------|
| (b) <u>By segment</u> | ----- | ----- |
| 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 |
| | ===== | ===== |

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

6 LOANS AND RECEIVABLES (continued)

| | 2010 AED 000 | 2009 AED 000 |
|--|-----------------|-----------------|
| Movement in allowances for specific impairment | | |
| ----- | ----- | ----- |
| 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 | | |
| ----- | ----- | ----- |
| 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 |
| | ===== | ===== |

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

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.

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

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 |
| | 2010 AED 000 | 2009 AED 000 |
| Movement in allowances for specific impairment | | |
| 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 |

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

9 TRADING SECURITIES

| | Domestic AED 000 | Regional AED 000 | International AED 000 | Total AED 000 |
|------------------|---------------------|---------------------|--------------------------|------------------|
| 31 December 2010 | | | | |
| 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 | | | | |
| 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 |

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

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 |
| | ===== |

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

10 INVESTMENT SECURITIES

| 31 December 2010 | Domestic AED 000 | Regional AED 000 | International AED 000 | Total AED 000 |
|---|---------------------|---------------------|--------------------------|------------------|
| | ----- | ----- | ----- | ----- |
| <u>HELD TO MATURITY:</u> | | | | |
| 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 |
| | ----- | ----- | ----- | ----- |
| <u>AVAILABLE-FOR-SALE:</u> | | | | |
| 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 |
| | ----- | ----- | ----- | ----- |
| <u>DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:</u> | | | | |
| 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 |
| | ===== | ===== | ===== | ===== |

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

10 INVESTMENT SECURITIES (continued)

| | Domestic AED 000 | Regional AED 000 | International AED 000 | Total AED 000 |
|---|---------------------|---------------------|--------------------------|------------------|
| 31 December 2009 | ----- | ----- | ----- | ----- |
| <u>HELD TO MATURITY:</u> | | | | |
| 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 |
| | ----- | ----- | ----- | ----- |
| <u>AVAILABLE-FOR-SALE:</u> | | | | |
| 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 |
| | ----- | ----- | ----- | ----- |
| <u>DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:</u> | | | | |
| 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.

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

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
FOR THE YEAR ENDED 31 DECEMBER 2010

14 PROPERTY AND EQUIPMENT

| | Freehold land and property improvements AED 000 | Leasehold premises and property improvements AED 000 | Others AED 000 | Fixed assets not commissioned AED 000 | Total AED 000 |
|--|---|---|-------------------|---|------------------|
| | ----- | ----- | ----- | ----- | ----- |
| <u>COST</u> | | | | | |
| 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 |
| | ===== | ===== | ===== | ===== | ===== |
| <u>ACCUMULATED DEPRECIATION</u> | | | | | |
| 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 |
| | ===== | ===== | ===== | ===== | ===== |

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

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 |
| <u>COST</u> | | | | | |
| 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 |
| <u>ACCUMULATED DEPRECIATION</u> | | | | | |
| 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.

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

15 GOODWILL AND INTANGIBLES

| | Goodwill | Intangibles | | | Total |
|--|-----------|---------------------|--------------------------------------|--|-----------|
| | AED 000 | Software AED 000 | Customer relationships AED 000 | Core deposit intangibles AED 000 | AED 000 |
| 31 December 2010 | | | | | |
| <u>Cost</u> | | | | | |
| 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 |
| <u>Amortisation and impairment</u> | | | | | |
| 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 | | | | | |
| <u>Cost</u> | | | | | |
| | 5,527,578 | 9,281 | 157,490 | 564,760 | 6,259,109 |
| <u>Amortisation and impairment</u> | | | | | |
| | 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

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

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.

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

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 |
| | ===== | ===== |

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

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.

| | 2010 AED 000 |
|--|-----------------|
| Assets held for sale | ----- |
| 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 | ----- |
| 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.).

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

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 |
| | ===== | ===== |

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

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 | - |
| | <u>19,415,809</u> | <u>24,072,172</u> |
| | ===== | ===== |

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 | - |
| | <u>19,416</u> | <u>24,072</u> |
| | ===== | ===== |

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

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

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 |
| | <u>3,236</u> | <u>3,711</u> |
| | ===== | ===== |

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 |
| | <u>4,976,389</u> | <u>4,506,494</u> |
| | ===== | ===== |

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

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.

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

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.

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

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 |
| | <u>1,378,311</u> | <u>1,352,155</u> |

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 |
| | <u>948,961</u> | <u>707,039</u> |

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
FOR THE YEAR ENDED 31 DECEMBER 2010

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 | <u>2,596,195</u> | <u>2,574,374</u> |
| Fee and commission expense | (757,120) | (663,198) |
| | <u>1,839,075</u> | <u>1,911,176</u> |
| <u>Fee and commission income includes:</u> | | |

| | 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 |
| | <u>2,447,247</u> | <u>2,370,939</u> |

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 |
| | <u>52,892</u> | <u>170,096</u> |

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

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 |
| | 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.

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

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) |
| | (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
FOR THE YEAR ENDED 31 DECEMBER 2010

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 | Negative fair value | Notional amount | Within 3 months | Over 3 months to 1 year | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years |
|---|---------------------|---------------------|-----------------|-----------------|-------------------------|------------------------|-------------------------|--------------|
| | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | 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 |

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

38 DERIVATIVES (continued)

31 December 2009 notional amounts by term to maturity

| | Positive fair value | Negative fair value | Notional amount | Within 3 months | Over 3 months to 1 year | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years |
|---|---------------------|---------------------|-----------------|-----------------|-------------------------|------------------------|-------------------------|--------------|
| | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | 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 |

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

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.

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

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 | - |

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

40 BUSINESS SEGMENT REPORTING

The Group is organised into the following main businesses:

- Corporate banking represents structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate and commercial customers.
- Consumer banking represents retail loans and deposits, private banking and wealth management, consumer financing, card services and call center operations.
- Treasury activities comprises of managing the Group's portfolio of investments, funds management, and interbank treasury operations.
- Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiary.
- Cards processing represents business pertaining to merchant acquiring and cards processing.
- Other operations of the Group include investment banking, asset management, equity broking services, property management, certain overseas branches, operations and support functions.

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

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 | 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 |

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

40 BUSINESS SEGMENT REPORTING (continued)

| 31 December 2009 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 |
|--|-------------------|------------------|------------|-----------------|------------------|-------------|-------------|---------|---------|
| | Corporate banking | Consumer banking | Treasury | Islamic banking | Cards processing | Others | Total | | |
| 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 | | |

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

41 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The principal direct subsidiaries of the Group are as follows:

As at 31 December 2010

| | Group % Share- | 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. |
| <u>Associates:</u> | | | |
| 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. |
| <u>Joint ventures:</u> | | | |
| 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.

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

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).

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

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.

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

45 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into account 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 |

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

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 | | Unrecognised (loss)/gain AED 000 |
|--|------------------------|---|--------------------------|----------------------------|-------------------------------|------------------------|-----------------------------|----------------|------------------------------|--------------------|----------------------------------|
| | | | | | | | | | Fair value AED 000 | Fair value 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 | - | - | (200,310) | 1,267,185 | 1,267,185 | - |
| Negative fair value of derivatives | 2,169,656 | - | - | - | - | - | - | 9,609,199 | 1,969,346 | 1,969,346 | - |
| Others | - | - | - | - | - | - | - | - | 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) | |

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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 |

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

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.

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

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 |
|--|--------------------|--------------------|--------------------|-------------------|
| <u>31 December 2010</u> | | | | |
| 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) |
| | <u>10,044,237</u> | <u>2,967,201</u> | <u>2,038,258</u> | <u>15,049,696</u> |

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

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 |
|--|--------------------|--------------------|--------------------|-------------------|
| <u>31 December 2009</u> | | | | |
| 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) |
| | <u>8,815,285</u> | <u>4,549,327</u> | <u>3,218,867</u> | <u>16,583,479</u> |

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 | <u>2,036,039</u> | <u>2,219</u> | <u>-</u> | <u>-</u> | <u>2,038,258</u> |

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.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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) |
| (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) |

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

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 |

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

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:

| | | |
|--|--------|--------|
| 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% |

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

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 |
| | ===== | ===== |

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

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: | | |
| 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).

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

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.

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

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.

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

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.

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

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.

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

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 |

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

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 |
| | <u>1,428,492</u> | <u>575,596</u> | <u>14,148,432</u> | <u>611,093</u> | <u>16,763,613</u> |

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 |
| | <u>1,428,492</u> | <u>575,596</u> | <u>14,148,432</u> | <u>611,093</u> | <u>16,763,613</u> |

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.

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

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) | <u>270,540,441</u> | <u>266,666,825</u> |
| Contingent liabilities | 41,940,988 | 48,544,748 |
| Irrevocable loan commitments | 9,301,142 | 10,092,483 |
| Total (B) | <u>51,242,130</u> | <u>58,637,231</u> |
| Total credit risk exposure (A + B) | <u>321,782,571</u> | <u>325,304,056</u> |

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

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* | | | | Of which past due but not impaired on the reporting date | | | | Of which individually impaired | |
|---|----------------------------|---|-----------------------|-----------------------|---------------------|--|-------------------------------|-------------------------------------|----------------------------|--------------------------------|--|
| | | <30 days AED 000 | 31-60 days AED 000 | 61-90 days AED 000 | > 90days AED 000 | Gross amount AED 000 | Interest suspended AED 000 | Allowance for impairment AED 000 | Carrying amount AED 000 | | |
| Due from banks | 13,850,467 | - | - | - | - | 47,966 | (2,050) | (27,490) | 18,426 | | |
| Loans and receivables: | | | | | | | | | | | |
| Corporate banking | 160,329,255 | 235,854 | 108,328 | 50,762 | 103,329 | 15,583,294 | (428,264) | (2,397,708) | 12,757,322 | | |
| Consumer banking | 18,247,435 | 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 | - | - | - | - | 361,418 | - | (264,939) | 96,479 | | |
| Islamic financing | 18,124,376 | 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 | - | - | - | - | - | - | - | - | | |
| Quoted - Other debt securities | 5,158,459 | - | - | - | - | 156,710 | - | (64,020) | 92,690 | | |
| Unquoted - Debt securities | 2,064,515 | - | - | - | - | 110,959 | - | (107,146) | 3,813 | | |
| Other securities | 4,885,896 | - | - | - | - | 808,028 | - | (488,961) | 319,067 | | |

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

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

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* | | | | Of which past due but not impaired on the reporting date | | | | Of which individually impaired | |
|---|----------------------------|---|-----------------------|-----------------------|---------------------|--|-------------------------------|-------------------------------------|----------------------------|--------------------------------|--|
| | | <30 days AED 000 | 31-60 days AED 000 | 61-90 days AED 000 | > 90days AED 000 | Gross amount AED 000 | Interest suspended AED 000 | Allowance for impairment AED 000 | Carrying amount AED 000 | | |
| Due from banks | 10,046,949 | - | - | - | - | 74,907 | (1,004) | (49,147) | 24,756 | | |
| Loans and receivables: | | | | | | | | | | | |
| Corporate banking | 170,944,509 | 291,578 | 184,613 | 88,454 | 328,427 | 1,822,253 | (148,477) | (962,599) | 711,177 | | |
| Consumer banking | 22,826,885 | 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 | - | - | - | - | 789,222 | - | (673,504) | 115,718 | | |
| Islamic financing | 19,911,611 | 380,291 | 178,596 | 103,188 | 470,440 | 682,194 | - | (344,966) | 337,228 | | |
| Trading and investment securities: | | | | | | | | | | | |
| Quoted - Government debt | 2,768,417 | - | - | - | - | - | - | - | - | | |
| Quoted - Other debt securities | 5,818,583 | - | - | - | - | 45,362 | - | (31,811) | 13,551 | | |
| Unquoted - Debt securities | 2,494,039 | - | - | - | - | 11,019 | - | (3,106) | 7,913 | | |
| Other securities | 5,682,574 | - | - | - | - | 647,944 | - | (447,136) | 200,808 | | |

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

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

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.

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

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.

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

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

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

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):

| Currency | 31 December 2010 | | 31 December 2009 | |
|--|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
| | 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.

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

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 |

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

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

| <u>Total Value at Risk</u> | 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.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

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.

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

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

| ASSETS | 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 |
|--|-------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|-------------------------|--------------------|
| 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 |

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

50 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued):

31 December 2010

| <u>LIABILITIES</u> | 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 |
|--------------------------------------|-------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|-------------------------|--------------------|
| 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 |

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

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

| <u>Financial liabilities</u> | 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 |
|--------------------------------------|-------------------------------|--------------------------------------|-------------------------------|--|--------------------------------------|---------------------------------------|-------------------------|
| | | | | | | | |
| 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) |

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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) |

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

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.

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

50 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis:

| 31 December 2010: | Less than 1 month AED 000 | Over 1 month to 3 months AED 000 | Over 1 month to 6 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 | - | - |

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

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

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.

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

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.

EMIRATES NBD (PJSC)

BASEL II - PILLAR III DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2010



www.emiratesnbd.com



BASEL II – PILLAR III DISCLOSURES

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OVERVIEW

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

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

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

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

In compliance with the CBUAE guidelines and Basel II accord; these disclosures include information on the Group’s risk management objectives and policies, risk assessment processes and computation, capital management and capital adequacy.

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

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

Information on capital adequacy includes:

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

Introduction

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

Pillar III disclosures 2010

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

Future Developments

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

Verification

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

Implementation of Basel II guidelines

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

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

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

Group Structure

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

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

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

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

Associates:

| | Group % Shareholding | Nature of Business | Country of Incorporation | Description of Accounting Treatment (Consolidation/ Investment Accounting) | Description of Regulatory Capital Treatment (Consolidation/ Deduction from capital/ Neither) |
|--|----------------------|----------------------------|--------------------------|--|--|
| National General Insurance Company PSC | 36.7 | General and life insurance | Dubai, U.A.E. | Equity Accounting | Neither - Included in gross credit exposure at carrying value |
| Union Properties PJSC | 47.6 | Real estate | Dubai, U.A.E. | Equity Accounting | Neither - Included in gross credit exposure at carrying value |

Joint ventures:

| | | | | | |
|----------------|----|--|---------------|-------------------|---|
| Sinnad W.L.L. | 49 | Third party ATM and card processing services | Bahrain | Equity Accounting | Neither - Included in gross credit exposure at carrying value |
| Obernet L.L.C. | 51 | Card embossing | Dubai, U.A.E. | Equity Accounting | Neither - Included in gross credit exposure at carrying value |

CONSOLIDATED CAPITAL STRUCTURE

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

- Tier 1 Capital** which is considered as the core measure of the Group's financial strength and includes share capital, reserves, retained earnings and minority interests (net of treasury shares and goodwill) and;
- Tier 2 Capital** which consists of qualified subordinated debts and allowed portions of revaluation reserves & general provisions.

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

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

Note

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

Capital Adequacy

The Group's Capital Adequacy ratio as at 31 December 2010 was 20.06 % and Tier 1 ratio was 12.75 % (in 2009, the Capital Adequacy ratio was 18.68% and Tier 1 ratio 11.90%) against the regulatory requirement of minimum of 12% and 8% (in 2009, 11% and 7%) respectively. The Group ensures adherence to CBUAE requirements by monitoring its Capital Adequacy against higher internal limits.

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

CAPITAL ADEQUACY (STANDARDIZED APPROACH)

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

Note

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

Standardized Approach – Credit risk & credit risk mitigation

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

- Claims on sovereign and central banks in the GCC are risk weighted at 0%.
- Domestic currency claims on a non commercial GCC Public Sector Enterprise (PSE) are treated as claims on their sovereigns if their central bank or monetary authority treats them as such. Foreign currency claims on such a PSE are risk weighted one grade less favorable than its sovereign i.e. 20% risk weight. Claims on other foreign PSEs are risk weighted one grade less favorable than its sovereign.
- Claims on commercial companies owned by a GCC sovereign or PSEs that operate as commercial organizations are treated as claims on a corporate and risk weighted in accordance with ratings from acceptable ECAIs.
- ECAI ratings are also used to determine the capital requirements against exposures to banks and financial institutions. The group uses option 2 (one of alternative risk weight and ECAI ratings matrices as prescribed in the Basel II accord) for determining the capital requirements in line with the supervisory discretion adopted by the CBUAE.
- Claims on corporate entities are risk weighted at prescribed risk weights applicable per the latest ECAI rating of the counterparty. Claims on unrated corporate entities are risk weighted at 100%.
- Consumer banking exposure is classified into 'Qualified Residential Mortgage', 'Qualified regulatory retail portfolio' and 'Others'; per the CBUAE Basel II guidelines and risk weighted at 35%, 75% and 100% respectively.
- All other assets are classified between 'assets under higher risk categories' and 'others'; and risk weighted at prescribed risk weights.

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

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

Credit Risk

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

GROSS CREDIT EXPOSURE AS PER STANDARDIZED APPROACH

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

Market Risk

Market risks subject to capital charge are as follows:

- Interest Rate Risk
- Foreign Exchange Risk
- Equity Exposure Risk
- Commodity Risk
- Options Risk

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

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

CAPITAL REQUIREMENT FOR MARKET RISK AS PER STANDARDIZED APPROACH

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

Operational Risk

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

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

RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management framework:

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

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

- Risk management is embedded in the Group as an intrinsic process
- The Board of Directors ("the Board") has the overall responsibility of managing risk and provides the overall risk management direction and oversight.
- The Group's risk appetite is determined by the EXCO and approved by the Board.
- The Group's overall risk management policies are managed by the Group Risk management function ("Group Risk"); headed by the General Manager, RISK ("CRO"). This function is independent of the business divisions.
- Credit, market, operational, liquidity, Interest Rate Risk in Banking Book and other risks (such as Compliance, Reputational and Business risk) are managed within the Group Risk Function.
- Board committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework.

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

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

Risk management process:

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

Credit Risk

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

Credit risk management and structure:

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

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

Credit Risk (Continued)

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

Independent functions within Group Risk manage credit risks on the corporate and consumer portfolios.

Management of corporate credit risk:

The process for managing corporate credit risk is as follows:

- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers the purpose of the facility, customers’ creditworthiness, sources of re-payment, prevailing and potential macro-economic factors, industry trends and also the customer’s standing within the industry.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations.
- Borrower risk grading – Internal rating models have been developed and implemented across various business segments of the Group to assess the credit quality of the borrowers. The bank uses these models to assign internal risk grades to these borrowers on the bank’s rating Masterscale. The rating Masterscale consists of 24 performing and 4 non-performing or default grades. In parallel each borrower is rated on a scale of 1 to 5, in line with the CBUAE requirements.
- Management of high risk accounts – This includes identification of delinquent accounts, sectors with higher risk and controls applicable for close monitoring. Policies on interest suspension and provisioning are strictly adhered to thereby reflecting actual income and quality of assets.
- Exceptions monitoring and management – Exceptions are monitored and managed in line with credit policies.

Management of consumer credit risk:

- An independent unit formulates consumer credit policies and monitors compliance.
- Policies are reviewed and updated on a regular basis to ensure that current market trends are considered on a timely basis.
- Consumer lending is handled through a workflow driven system that assists underwriters in assigning limits and in the approval of exceptions.
- All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk and reward dynamics.
- The risk grade of an account reflects the associated risks measured by the delinquency history. Application and behavior Probability of Default (“PDs”) are used to map consumer exposures to the bank’s Masterscale.

Concentration Risk

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

Concentration Risk (Continued)

The Group manages the concentration risk by establishing industry limits to diversify the exposures to various sectors. Corporate credit follows concentration risk in areas like country, industry and individual level concentration. Retail credit follows concentration level by employer, nationality and income segments.

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

There are no automatic triggers for policy changes or early actions, but these concentration indicators are closely tracked and manually monitored on quarterly basis to ensure that the portfolio is free of major concentration risks. Within the economic capital framework, concentration risk is considered implicitly. The Group intends to include single name as well as sector concentrations within the credit portfolio model. Therefore, this risk type will not be treated as a stand-alone risk and, hence, it is not quantified as a specific capital charge.

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

GROSS CREDIT EXPOSURE – CURRENCY CLASSIFICATION

31 DECEMBER 2010

AED '000s

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

31 DECEMBER 2009

AED '000s

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

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

GROSS CREDIT EXPOSURE BY GEOGRAPHY

31 DECEMBER 2010

AED '000s

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

31 DECEMBER 2009

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

**GROSS CREDIT EXPOSURE BY ECONOMIC ACTIVITY
31 DECEMBER 2010**

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

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

GROSS CREDIT EXPOSURE BY ECONOMIC ACTIVITY (Continued)

31 DECEMBER 2009

AED '000s

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

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

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Monitoring:

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

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

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

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

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

Emirates NBD Masterscale

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

Corporate and SME Models

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

Financial Institutions Models

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

Retail Scorecards

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

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

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

Model Governance and Validation

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

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

Group credit risk mitigation strategy:

The Group operates within:

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

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

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

Collateral management:

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

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

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

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

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

GROSS CREDIT EXPOSURE AS PER STANDARDIZED APPROACH

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

GROSS CREDIT EXPOSURE AS PER STANDARDIZED APPROACH (Continued)

| | On Balance Sheet | Off Balance Sheet Net Exposure after Credit Conversion Factors (CCF) | Total Gross Exposure | Exposure Before CRM | CRM | After CRM | Risk Weighted Assets |
|---|--------------------|--|-------------------------|------------------------|------------------|--------------------|-------------------------|
| | 68,908,560 | 32,752 | 68,941,312 | 68,941,312 | - | 68,941,312 | 51,162 |
| Claims on non-central government public sector entities | 4,321,322 | 304,638 | 4,625,960 | 4,625,960 | - | 4,625,960 | 14,627 |
| Claims on multi lateral development banks | - | - | - | - | - | - | - |
| Claims on banks | 16,857,186 | 6,811,985 | 23,669,171 | 23,669,171 | - | 23,669,171 | 11,347,742 |
| Claims on securities firms | - | - | - | - | - | - | - |
| Claims on corporate | 133,269,669 | 36,218,439 | 169,488,108 | 159,395,625 | 5,757,370 | 153,638,255 | 153,825,310 |
| Claims included in the regulatory retail portfolio | 19,631,003 | 476,553 | 20,107,556 | 20,107,556 | 115,839 | 19,991,717 | 15,992,708 |
| Claims secured by residential property | 6,515,720 | - | 6,515,720 | 6,515,720 | - | 6,515,720 | 3,965,934 |
| Claims secured by commercial real estate | 3,446,601 | - | 3,446,601 | 3,446,601 | - | 3,446,601 | 3,446,601 |
| Past due loans | 6,834,922 | - | 6,834,922 | 6,834,922 | - | 6,834,922 | 1,740,187 |
| Higher-risk categories | 1,003,506 | - | 1,003,506 | 1,003,506 | - | 1,003,506 | 1,505,259 |
| Other assets | 15,573,143 | - | 15,573,143 | 15,573,143 | - | 15,573,143 | 12,862,002 |
| Claims on securitized assets | 27,544 | - | 27,544 | 27,544 | - | 27,544 | 13,772 |
| Credit derivatives (Banks selling protection) | - | 3,584,481 | 3,584,481 | 3,584,481 | - | 3,584,481 | 2,821,048 |
| Total | 276,389,176 | 47,428,848 | 323,818,024 | 313,725,541 | 5,873,209 | 307,852,332 | 207,586,352 |

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

31 DECEMBER 2010

| | Rated | Unrated | Total Gross Exposure | Total Net Exposure | Post CRM | RWA Post CRM | AED '000s |
|---|-------------------|--------------------|-----------------------------|---------------------------|--------------------|---------------------|------------------|
| Claims on sovereigns | 2,635,829 | 87,864,153 | 90,499,982 | 90,499,982 | 90,499,982 | 213,003 | |
| Claims on non-central government public sector entities | 642,473 | 1,869,833 | 2,512,306 | 2,512,306 | 2,512,306 | 29,192 | |
| Claims on multi lateral development banks | - | - | - | - | - | - | |
| Claims on banks | 18,774,083 | 2,433,605 | 21,207,688 | 21,178,148 | 21,178,148 | 9,992,444 | |
| Claims on securities firms | - | - | - | - | - | - | |
| Claims on corporate | 993,324 | 139,680,389 | 140,673,713 | 140,502,547 | 134,833,497 | 134,893,711 | |
| Claims included in the regulatory retail portfolio | - | 15,241,817 | 15,241,817 | 15,241,817 | 14,751,460 | 11,763,539 | |
| Claims secured by residential property | - | 6,092,656 | 6,092,656 | 6,092,656 | 6,092,656 | 3,831,315 | |
| Claims secured by commercial real estate | - | 2,248,033 | 2,248,033 | 2,248,033 | 2,248,033 | 2,248,033 | |
| Past due loans | - | 22,993,301 | 22,993,301 | 14,757,339 | 14,757,339 | 20,886,606 | |
| Higher-risk categories | - | 693,857 | 693,857 | 693,857 | 693,857 | 1,040,786 | |
| Other assets | 1,121,864 | 17,755,499 | 18,877,363 | 18,388,402 | 18,388,402 | 14,126,508 | |
| Claims on securitized assets | - | - | - | - | - | - | |
| Credit derivatives (Banks selling protection) | 2,427,155 | 918,125 | 3,345,280 | 3,345,280 | 3,345,280 | 2,049,071 | |
| Total | 26,594,728 | 297,791,268 | 324,385,996 | 315,460,367 | 309,300,960 | 201,074,208 | |

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

31 DECEMBER 2009

| | Rated | Unrated | Total Gross Exposure | Total Net Exposure | Post CRM | RWA Post CRM | AED '000s |
|---|-------------------|--------------------|-----------------------------|---------------------------|--------------------|---------------------|------------------|
| Claims on sovereigns | 3,071,240 | 65,870,072 | 68,941,312 | 68,941,312 | 68,941,312 | 51,162 | |
| Claims on non-central government public sector entities | 719,081 | 3,906,879 | 4,625,960 | 4,625,960 | 4,625,960 | 14,627 | |
| Claims on multi lateral development banks | - | - | - | - | - | - | |
| Claims on banks | 15,047,564 | 8,621,607 | 23,669,171 | 23,669,171 | 23,669,171 | 11,347,742 | |
| Claims on securities firms | - | - | - | - | - | - | |
| Claims on corporate | 1,858,435 | 167,629,673 | 169,488,108 | 159,395,625 | 153,638,255 | 153,825,310 | |
| Claims included in the regulatory retail portfolio | - | 20,107,556 | 20,107,556 | 20,107,556 | 19,991,717 | 15,992,708 | |
| Claims secured by residential property | - | 6,515,720 | 6,515,720 | 6,515,720 | 6,515,720 | 3,965,934 | |
| Claims secured by commercial real estate | - | 3,446,601 | 3,446,601 | 3,446,601 | 3,446,601 | 3,446,601 | |
| Past due loans | - | 6,834,922 | 6,834,922 | 6,834,922 | 6,834,922 | 1,740,187 | |
| Higher-risk categories | - | 1,003,506 | 1,003,506 | 1,003,506 | 1,003,506 | 1,505,259 | |
| Other assets | - | 15,573,143 | 15,573,143 | 15,573,143 | 15,573,143 | 12,862,002 | |
| Claims on securitized assets | 27,544 | - | 27,544 | 27,544 | 27,544 | 13,772 | |
| Credit derivatives (Banks selling protection) | 2,354,026 | 1,230,455 | 3,584,481 | 3,584,481 | 3,584,481 | 2,821,048 | |
| Total | 23,077,890 | 300,740,134 | 323,818,024 | 313,725,541 | 307,852,332 | 207,586,352 | |

CREDIT RISK MITIGATION AS PER STANDARDIZED APPROACH

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

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Loans with renegotiated terms

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

Impairment assessment

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

Past due but not impaired

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

Definition of impaired financial assets

A counterparty is marked as impaired if:

- (a) In case of corporate exposures, the Group considers the counterparty unlikely to pay the full amount outstanding under the original terms of the contract due to one of the following conditions:
 - A material credit obligation has been put on non-accrual status.
 - Distressed restructuring of a credit obligation.
 - Selling of a credit obligation at an economic loss.
 - The Group or a third party has filed for the counterparty's bankruptcy.
- (b) In case of consumer, if the exposure is past due for more than 90 days.

Measurement of specific impairment

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

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

Measurement of collective impairment

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

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

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

Write offs

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

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

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

IMPAIRED LOANS BY ECONOMIC ACTIVITY

31 DECEMBER 2010

AED '000s

| | Overdue (Gross of Interest in Suspend/ Provisions) | | Provisions | | | Adjustments | | | Total Impaired Assets | |
|---|--|-------------------|-------------------|------------------|------------------|----------------|----------------|----------------------|-----------------------|-------------------|
| | Less than 90 days | 90 days and above | Total | Specific | General | Write-offs | Write-backs | Interest in Suspense | | |
| | | | | | | | | | | |
| Agriculture, fishing & related activities | - | - | - | - | - | - | - | - | - | - |
| Crude, oil gas, mining & quarrying | - | 2,514 | 2,514 | - | - | - | - | 171 | - | 2,343 |
| Manufacturing | - | 995,840 | 995,840 | 368,711 | - | 251 | 1,306 | 77,974 | - | 549,155 |
| Electricity & Water | - | - | - | - | - | - | - | - | - | - |
| Construction | - | 415,552 | 415,552 | 214,325 | - | 1,438 | 11,529 | 37,465 | - | 163,762 |
| Trade | - | 317,594 | 317,594 | 92,499 | - | 33,190 | 37,312 | 81,306 | - | 143,789 |
| Transport, Storage & Communication | - | 53,926 | 53,926 | 8,576 | - | - | - | 4,499 | - | 40,851 |
| Financial Institutions | - | 12,342,259 | 12,342,259 | 1,336,965 | - | - | - | 10,384 | - | 10,994,910 |
| Real Estate | - | 587,115 | 587,115 | 398,837 | - | - | 31 | 31,550 | - | 156,728 |
| Services | - | 582,536 | 582,536 | 45,672 | - | 146 | 6 | 11,808 | - | 525,056 |
| Government | - | - | - | - | - | - | - | - | - | - |
| Retail/ Consumer Banking | - | 6,486,564 | 6,486,564 | 3,214,836 | - | 437,446 | 60,729 | 1,738,487 | - | 1,533,241 |
| All Others | - | 1,209,401 | 1,209,401 | 449,003 | - | 826 | 6,983 | 112,894 | - | 647,504 |
| Total | - | 22,993,301 | 22,993,301 | 6,129,424 | 2,192,636 | 473,297 | 117,896 | 2,106,538 | 14,757,339 | 14,757,339 |

IMPAIRED LOANS BY ECONOMIC ACTIVITY (Continued)

31 DECEMBER 2009

AED '000s

| | Overdue (Gross of Interest in Suspend/ Provisions) | | Provisions | | Adjustments | | Total Impaired Assets | | |
|---|--|-------------------|------------------|------------------|------------------|----------------|-----------------------|------------------|----------------------|
| | Less than 90 days | 90 days and above | Total | Specific | General | Write-offs | | Write-backs | Interest in Suspense |
| | | | | | | | | | |
| Agriculture, fishing & related activities | - | - | - | - | - | - | - | - | |
| Crude, oil gas, mining & quarrying | - | - | - | - | - | - | - | - | |
| Manufacturing | - | 122,500 | 122,500 | 59,058 | - | - | 632 | 31,893 | |
| Electricity & Water | - | - | - | - | - | - | - | - | |
| Construction | - | 965,395 | 965,395 | 564,623 | - | - | 16,640 | 13,059 | |
| Trade | - | 412,110 | 412,110 | 200,186 | - | - | 525 | 81,564 | |
| Transport, Storage & Communication | - | 1,761 | 1,761 | 401 | - | - | - | 822 | |
| Financial Institutions | - | 789,279 | 789,279 | 673,561 | - | 373,311 | - | - | |
| Real Estate | - | 44,444 | 44,444 | 12,452 | - | - | - | 1,579 | |
| Services | - | 139,594 | 139,594 | 35,770 | - | - | - | 6,746 | |
| Government | - | - | - | - | - | - | - | - | |
| Retail/ Consumer Banking | - | 3,657,930 | 3,657,930 | 2,194,709 | - | - | 152,617 | 868,422 | |
| All Others | - | 701,908 | 701,908 | 349,654 | - | 669 | 11,526 | 236 | |
| Total | - | 6,834,922 | 6,834,922 | 4,090,414 | 1,857,921 | 373,980 | 181,940 | 1,004,321 | |

1,740,187

IMPAIRED LOANS BY GEOGRAPHY

31 DECEMBER 2010

AED '000s

| | Overdue (Gross of Interest in Suspend/ Provisions) | | Provisions | | Adjustments | | Total Impaired Assets | | |
|-----------------------------|--|-------------------|-------------------|------------------|------------------|----------------|-----------------------|------------------|----------------------|
| | Less than 90 days | 90 days and above | Total | Specific | General | Write-offs | | Write-backs | Interest in Suspense |
| | | | | | | | | | |
| United Arab Emirates | - | 21,453,218 | 21,453,218 | 5,137,047 | - | 473,297 | 90,727 | 2,023,288 | |
| GCC excluding UAE | - | 1,106,592 | 1,106,592 | 701,013 | - | - | - | 37,335 | |
| Arab League (excluding GCC) | - | 6,486 | 6,486 | 4,094 | - | - | - | 2,396 | |
| Asia | - | 62,087 | 62,087 | 18,831 | - | - | 27,169 | 43,519 | |
| Africa | - | - | - | - | - | - | - | - | |
| North America | - | 91,812 | 91,812 | 91,812 | - | - | - | - | |
| South America | - | - | - | - | - | - | - | - | |
| Caribbean | - | - | - | - | - | - | - | - | |
| Europe | - | 273,106 | 273,106 | 176,627 | - | - | - | - | |
| Australia | - | - | - | - | - | - | - | - | |
| Others | - | - | - | - | - | - | - | - | |
| Total | - | 22,993,301 | 22,993,301 | 6,129,424 | 2,192,636 | 473,297 | 117,896 | 2,106,538 | |

14,292,883

368,244

(4)

(263)

96,479

14,757,339

IMPAIRED LOANS BY GEOGRAPHY (Continued)

| 31 DECEMBER 2009 | AED '000s | | | | | | |
|-----------------------------|---|------------------|------------------|------------------|----------------|----------------|-----------------------|
| | Overdue (Gross of Interest in Suspense/ Provisions) Less than 90 days and above | Total | Specific | General | Write-offs | Adjustments | Total Impaired Assets |
| United Arab Emirates | - | 5,948,689 | 3,709,402 | - | 669 | 181,940 | 992,202 |
| GCC excluding UAE | - | 882,119 | 377,120 | - | - | - | 12,119 |
| Arab League (excluding GCC) | - | 3,992 | 3,892 | - | - | - | - |
| Asia | - | 122 | - | - | - | - | - |
| Africa | - | - | - | - | - | - | - |
| North America | - | - | - | - | 117,900 | - | - |
| South America | - | - | - | - | - | - | - |
| Caribbean | - | - | - | - | - | - | - |
| Europe | - | - | - | - | 255,411 | - | - |
| Australia | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - |
| Total | 6,834,922 | 6,834,922 | 4,090,414 | 1,857,921 | 373,980 | 181,940 | 1,740,187 |

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED LOANS

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

Market Risk

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

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

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

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

Market Risk is a function independent of business/risk taking activities, and reports to the CRO. All market risk limits are approved by BCIC and delegated through Group Asset Liability Management Committee ("ALCO") to Global Markets and Treasury division ("Treasury"). Any new limits or extensions to existing limits are reviewed and if appropriate, supported by Market risk before being proposed to the BCIC for approval. This ensures that all limits are approved and delegated in close consultation with Market risk. All limit breaches are recorded by market risk and reported to the CRO, Head of Treasury and the responsible desk head. Treasury must provide adequate explanation for any limit breaches and the strategy to remedy the breach. All limit breaches and related information are reported to ALCO on monthly basis.

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

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

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

- Stop loss limit for foreign exchange and interest rate derivatives trading desk.
- Overall PV01 (present value of a 1 basis point shift) limits for the Interest Rate Derivatives.
- PV01 Limits by time buckets.
- Spread Risk for USD/AED and USD/SAR to control exposure in the pegged currencies.
- Open Position limits for foreign exchange by three currency groups and overall open position limits.
- Option premium limits for buying options.
- Contract limits for exchange traded products such as interest rate futures and bond futures.
- Notional limits for Forward Rate Agreements and Interest Rate Swaps (IRS) /Currency Interest Rate Swaps (CIRS).

- Greeks (Delta, Gamma and Vega) limits for options trading.
- Value at Risk (VaR) Limits

Trading book managed by Market Risk management

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

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

VaR based risk monitoring

• VaR based risk monitoring

Market risk has implemented Reuters' KVaR+ system for VaR calculations, scenario building, and stress testing trading risk.

The VaR is calculated according to the two different methodologies:

1. Historical Simulation
2. Monte-Carlo Simulation

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

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

| <u>Methodology</u> | <u>Confidence Level</u> | <u>Holding Period (Horizon)</u> |
|------------------------|-------------------------|---------------------------------|
| Historical Simulation | 95% | 1 day |
| | | 10 days |
| Monte Carlo Simulation | 99% | 1 day |
| | | 10 days |

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

- Interest rate VaR
- Currency VaR
- Volatility VaR
- Residual VaR

Year end Value at Risk:

- Confidence Level : 99%
- Holding Period : 1 day
- Methodology: Monte Carlo Simulation

| | 2010 AED '000s | 2009 AED '000s |
|----------------------------|-------------------|-------------------|
| <u>Total Value at Risk</u> | ----- | ----- |
| As at 31 December | 5,374 | 4,440 |
| Average | 7,039 | 3,762 |
| Minimum | 1,923 | 1,519 |
| Maximum | 16,068 | 7,306 |

Interest Rate Risk in the Banking Book

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

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

Group Risk ensures that data inputs are adequately specified (commensurate with the nature and complexity of the Group's holdings) with regard to rates, maturities, re-pricing, embedded options, and other details to provide a reasonably accurate portrayal of changes in economic value or earnings. Group risk management also ensures that systems assumptions (used to transform positions into cash flows) are reasonable, properly documented, and stable over time. Material changes to assumptions are documented, justified, and approved by Group ALCO.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating 200 basis point parallel shifts to the yield curve(s), and corresponding impact on its Net Interest Income.

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

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

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

Equity Position Risk

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

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

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK

31 DECEMBER 2010

(a) Quantitative Details of Equity Position

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

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

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

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

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

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

31 DECEMBER 2010

(d) Capital requirements by Equity groupings

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

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

| Particulars | Banking Book (Per Basel II Definition) | Trading Book (Per Basel II Definition) | AED '000s |
|--------------|--|--|-----------|
| Quoted | 707,260 | 137,347 | |
| Unquoted | 1,645,128 | - | |
| Total | 2,352,388 | 137,347 | |

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

31 DECEMBER 2009

(a) Quantitative Details of Equity Position

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

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

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

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

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

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

31 DECEMBER 2009

(d) Capital requirements by Equity groupings

| | AED '000s |
|----------------------------------|----------------|
| Grouping | |
| Strategic Investments | 14,112 |
| Available for Sale | 280,024 |
| Held for Trading | 23,378 |
| Total capital requirement | 317,514 |

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

| Particulars | AED '000s | |
|--------------|--|--|
| | Banking Book (Per Basel II Definition) | Trading Book (Per Basel II Definition) |
| Quoted | 503,753 | 119,106 |
| Unquoted | 2,439,409 | - |
| Total | 2,943,162 | 119,106 |

Foreign Exchange Risk

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

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

Operational Risk

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

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

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

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

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

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

- For the assessment of any operational risk of a new or amended product or process prior to its implementation, the Group established the Control Risk Self Assessment (CRSA) process. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives.
- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analyzing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units, i.e. where these events are encountered. The operation risk management function supports the respective units in the analysis of operational risk events and provides Group-wide reporting on these events.

- IT Security processes ensure confidentiality, integrity and availability of Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Group operational risk function ensures that security processes are integrated with strategic and operational planning processes to secure the organization's mission.
- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy.
- The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

Liquidity Risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they come due, (Structural Funding Risk), or because of the inability to convert assets into cash, (Market Liquidity Risk), at reasonable prices. The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure -

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

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

Policies and Procedures

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

Specifically, liquidity and funding management process includes:

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

Liquidity Risk Monitoring:-

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

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

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

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

Liquidity Risk Mitigation

The Group ALCO, in conjunction with Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. The Group maintains adequate liquidity buffers of high credit quality (minimum AA-), which can be monetized at short notice and minimal cost. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

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

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

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

| | 31 DECEMBER 2010 | | | | | | | 31 DECEMBER 2009 | | | | | | | | | | |
|---|--------------------|------------------|-------------------|--------------------|------------------|------------------|-----------------------------------|-------------------|--------------------|--------------------|-------------------|-------------------|--------------------|-------------------|------------------|-----------------------------------|-------------------|--------------------|
| | Loans | Debt securities | Other assets | Total funded | Commitments | OTC derivatives | Other off-balance sheet exposures | Total non-funded | Total | Loans | Debt securities | Other assets | Total funded | Commitments | OTC derivatives | Other off-balance sheet exposures | Total non-funded | Total |
| Less than 3 months | 79,336,344 | 892,053 | 39,764,163 | 119,992,560 | 648,390 | 377,363 | 6,839,530 | 7,865,283 | 127,857,843 | 87,980,845 | 363,715 | 36,782,813 | 125,127,373 | 3,414,512 | - | 7,129,766 | 10,544,278 | 135,671,651 |
| 3 months to 1 year | 14,113,822 | 870,135 | 25,988,932 | 40,972,889 | 920,692 | 533,945 | 10,645,204 | 12,099,841 | 53,072,730 | 37,257,644 | 904,343 | 8,946,693 | 47,108,680 | 4,465,285 | 2,903,524 | 8,719,209 | 16,088,019 | 63,196,699 |
| 1 year to 5 years | 59,283,701 | 5,759,534 | 9,459,866 | 74,503,101 | 724,934 | 2,225,889 | 15,240,928 | 18,191,751 | 92,694,852 | 55,619,021 | 6,232,511 | 9,558,958 | 71,410,490 | 2,212,686 | 867,226 | 15,861,505 | 18,941,417 | 90,351,907 |
| Over 5 years | 26,237,446 | 1,380,112 | 11,385,350 | 39,002,908 | - | 639,398 | - | 639,398 | 39,642,306 | 13,845,179 | 3,088,467 | 9,050,379 | 25,984,025 | - | 556,469 | 1,298,666 | 1,855,135 | 27,839,160 |
| Add: Grossing up of interest in suspense & provisions | 9,606,265 | - | 1,512,000 | 11,118,265 | - | - | - | - | 11,118,265 | 6,413,642 | - | 344,966 | 6,758,608 | - | - | - | - | 6,758,608 |
| Total | 188,577,578 | 8,901,834 | 88,110,311 | 285,589,723 | 2,294,016 | 3,776,595 | 32,725,662 | 38,796,273 | 324,385,996 | 201,116,331 | 10,589,036 | 64,683,809 | 276,389,176 | 10,092,483 | 4,327,219 | 33,009,146 | 47,428,848 | 323,818,024 |

Reputation Risk

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

Reputation risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. The Group has controls to ensure a positive perception of the Group and is currently formalising policy to standardize the management approach across the Group.

Regulatory/ Compliance Risk

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

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

Business Risk

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

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

Capital management policies and stress testing

The Group adheres to the regulations set out by the CBUAE which has confirmed the requirements in relation to Basel II/ Pillar 2 in its circular 27/2009, dated 17 November, 2009.

According to the guidelines issued by the CBUAE, all banks have to prepare a forward-looking capital adequacy assessment and to submit a comprehensive report annually. Whilst the group has a robust capital adequacy assessment, monitoring and reporting process, it is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel III.

The Group's forward-looking internal capital adequacy assessment process is based on base-case assumptions, reflecting the Group's current financial budget and business expectations under business as usual conditions.

The implemented internal capital adequacy assessment process is based on Economic Capital and defines adequacy as balance of capital supply, in form of available financial resources, and capital demand, in form of cushion against unexpected losses. The Group measures two levels of adequacy:

- the capability to withstand unexpected losses at a confidence level of 80% through projected net-income post dividend and provisions, and
- the capability to withstand unexpected losses at a confidence level of 99.9% through its capital base including projected net-income post dividend and provisions, with the latter measure being the key measure for the adequacy assessment

The Economic Capital demand is based on a set of models, with

- Credit risk - Monte-Carlo simulation based Portfolio Model for credit Value at Risk,
- Market risk - Market Value at Risk complemented by Basel II/ Standardized Approach,
- Operational risk - Basel II/ Standardized Approach,
- Business risk - volatility driven parametric Value at Risk, and
- Interest rate risk/ Banking book – Net interest income volatility model (complementary to PV01).

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

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

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

The Integrated Stress Testing Framework encompasses:

- the forward-looking assessment of economic scenarios, including potential feedback loops and second round effects,
- the measurement of sensitivities against key risk driver and parameters, as well as
- the analysis of reverse stress tests modeling events that could cause a significant impact on the bank, and provides by that a comprehensive analysis on the potential impact in terms of balance sheet structure, financial performance, capitalization levels and funding profile.

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

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

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

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

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

Key features of risk management in EIB are summarized below:

- Independent risk management ownership at EIB level.
- Dotted line relationships with Group Risk.

- Group Risk's tools/ processes being utilized and acclimatized for use by EIB.

The following work streams summarize the coordination with Group Risk:

- EIB specific risk strategy development and appetite definition within broader Group Risk Strategy.
- Corporate Risk Governance model refinement.
- Market risk framework – EIB backs out its trading exposures to Group Treasury, and therefore the market risk control is performed centrally. Investment book exposure is maintained independently, with periodic reviews by Group Risk.
- Operational risk framework is managed locally by EIB Operational Risk Committee, and benefits from a dotted line relationship/ periodic support from Group Operational Risk on policies and self assessment methodologies.
- Group liquidity risk policy adoption, in line with the Group ALCO defined framework.
- Compliance and AML Framework, in line with Group guidelines and policies with a dotted line relationship.
- Basel II Compliance: Pillar 1 - Basis of establishing risk framework. Presently, EIB is 'standardized approach' compliant, and is working towards IRB methodology through the use of Credit Rating Models built at Group Risk.
- Inputs into Group Wide Internal Capital Adequacy Assessment Process (ICAAP): Pillar 2.
- Inputs into Group Wide Stress Testing.

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

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