EMIRATES NBD (PJSC)

GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

Emirates NBD

Emirates NBD

www.emiratesnbd.com

Contents

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 2009.

The Company was incorporated in the Uniited Arab Emirates on 16 July 2007, pursuant to the approval from the Central Bank of the UAE on 3 July 2007, to grant the Company a banking license.

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 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

Financial Commentary

The Group reported a consolidated profit (attributable to equity holders) of AED 3,346 million for the year 2009. In response to the current economic climate, the Group has continued to focus on:

- Optimizing the balance sheet and customer pricing, whilst maintaining focus on existing customer relationships by providing wider range of products and tailored solutions;
- Enhancing operating efficiency, whilst continuing its investment in infrastructure technology and governance;
- Pursuing the growth and expansion strategy in selected markets;

The Group has achieved synergies of AED 328 million exceeding its second year target by 33% comprising of revenue AED 129 million, cost synergies of AED 169 million, and one off synergies of AED 30 million. In doing so, the Group has already exceeded the cost synergy targets a year ahead of plan.

The consolidated profits have been adversely affected by the global downturn in the form of increased provisions. Group Earning per Share decreased to AED 0.60 (2008: AED 0.66).

The Group achieved a return on average tangible equity of 16.1% (2008: 19.1%) and return on average total assets of 1.2% (2008: 1.4%).

Equity Holders' Funds

Total equity holders' funds as at the end of 2009 stands at AED 21,926 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 2009 profit.

The Directors also propose the following appropriations from retained earnings:

	AED million
Retained earnings as at 01 January 2009	4,193
Group profit for the year (attributable to equity holders)	3,346
Retained earnings available for appropriation	7,539
(a) Transfer to Legal and statutory reserves	(335)
(b) Transfer to Regular reserve	(50)
(c) 2008 Cash dividend of 20% paid during 2009	(1,011)
(d) Interest on Tier 1 Capital Notes	(133)
(e) Directors' fees for 2009 *	(21)
Balance of retained earnings as at 31 December 2009	5,989

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

Appointment of Directors and attendance at Board and Committee meetings during 2009

The Directors for the Company appointed on 18 July 2007 are as below:

H. E. Ahmed Humaid Al Tayer	Chairman
Mr. Abdullah Mohamed Saleh	Vice Chairman
H. E. Easa Saleh Al Gurg	Director
Mr. Fardan Ali Fardan Alfardan	Director
H. E. Abdulla Ahmed Lootah	Director
Mr. Khalid Jassim Mohd Bin Kalban	Director
H.E. Hamad Mubarak Buamim	Director
Mr. Hussain Hassan Mirza Al Sayegh	Director
H. E. Abdulla Sultan Mohamed Al Owais	Director
Mr. Omar Abdullah Al Futtaim	Director (resigned on 18 November 2009)
Mr. Butti Obaid Butti Al Mulla	Director
Mr. R. Douglas Dowie	Director
Mr. Khalid Juma Al Majid	Director (appointed on 18 November 2009)

Emirates NBD Board (ENBD)

Total No. of meetings : 7 Total Duration : 16:00

ENBD Board Audit Committee (BAC)

Total No. of meetings : 7 Total Duration : 17:10

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)
Mr. R. Douglas Dowie (Member)

ENBD Board Follow Up & Remuneration Committee (BF&RC)

Total No. of meetings : 4 Total Duration : 5:00

H.E. Hamad Mubarak Buamim (Chairman of the Committee)
Mr. Khalid Jassim Mohd Bin Kalban (Member)
H.E. Abdulla Ahmed Lootah (Member)
Mr. Butti Obaid Butti Al Mulla (Member)
Mr. R. Douglas Dowie (Member)

ENBD Board Risk Committee (BRC)

Total No. of meetings : 6 Total Duration : 11:45

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

ENBD Board Credit & Investment Committee (BCIC)

Total No. of meetings : 19 Total Duration : 26:30

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

Auditors:

KPMG and Ernst & Young were appointed as auditors of the Emirates NBD Group upon its incorporation.

On behalf of the Board

Ahmed Humaid Al Tayer
Chairman
Dubai, UAE
10 February 2010

Independent auditors' report

The Share holders
Emirates NBD PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Emirates NBD PJSC ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income (comprising a consolidated income statement and a consolidated statement of other comprehensive income), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable of the articles of association of the Company, Federal Law No.8 of 1984 (as amended) and Federal Law No. 10 of 1980. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 of 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 the auditor's 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 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.

Independent auditors' report

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 and the articles of association of the Company; proper books of account have been kept by the Company and its subsidiaries; and the contents of the report of the Board of Directors relating to these consolidated financial statements are in agreement with the books of account. We have obtained all the information and explanations we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the articles of association of the Company, Federal Law No 8 of 1984 (as amended) or Federal Law No. 10 of 1980 have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Name	**Vijendra Nath Malhotra**	**Edward B Quinlan**
Registration No	48 B	93
	KPMG Dubai United Arab Emirates	Ernst & Young Dubai United Arab Emirates

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

	Notes	2009 AED 000	2008 AED 000
ASSETS			
Cash and deposits with Central Bank	4	19,670,666	16,707,194
Due from banks	5	10,046,949	8,128,342
Loans and receivables	6	194,702,689	188,006,789
Islamic financing and investment products	7	19,911,611	20,923,373
Trading securities	8	611,093	244,445
Investment securities	9	16,152,520	19,390,801
Investments in associates and joint ventures	10	2,444,550	2,924,808
Positive fair value of derivatives	35	2,819,686	6,323,494
Investment properties	11	703,120	796,107
Property and equipment	12	3,305,606	2,792,618
Goodwill and intangibles	13	6,045,471	6,139,331
Customer acceptances	40	2,562,869	2,860,654
Other assets	14	2,599,652	7,175,720
TOTAL ASSETS		**281,576,482**	**282,413,676**
LIABILITIES			
Due to banks	15	29,995,062	48,425,638
Customer deposits	16	157,976,541	139,979,804
Islamic customer deposits	17	23,185,850	22,335,137
Repurchase agreements with banks	18	3,615,441	3,260,419
Debt issued and other borrowed funds	19	24,072,172	28,802,830
Sukuk payable		1,267,185	1,267,185
Negative fair value of derivatives	35	2,424,224	5,754,467
Customer acceptances	40	2,562,869	2,860,654
Other liabilities	20	4,506,494	3,965,621
TOTAL LIABILITIES		**249,605,838**	**256,651,755**
EQUITY			
Issued capital	21	5,557,775	5,052,523
Treasury shares		(46,175)	(46,175)
Tier I capital notes	22	4,000,000	-
Share premium reserve	21	12,270,124	12,270,124
Legal and statutory reserve	23	1,964,205	1,629,205
Other reserves	23	2,869,533	3,324,385
Cumulative changes in fair value		(728,772)	(757,979)
Retained earnings		5,989,809	4,193,062
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		31,876,499	25,665,145
Non-controlling interest		94,145	96,776
TOTAL EQUITY		**31,970,644**	**25,761,921**
TOTAL LIABILITIES AND EQUITY		**281,576,482**	**282,413,676**

The notes set out on pages 14 to 92 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 6.

Chairman | Director | Chief Executive Officer

GROUP CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 AED 000	2008 AED 000
Interest income	24	11,972,238	11,155,912
Interest expense	24	(5,205,173)	(5,746,922)
Net interest income		6,767,065	5,408,990
Income from Islamic financing and investment products	25	1,352,155	1,180,257
Distribution to depositors and profit paid to Sukuk holders	26	(707,039)	(755,436)
Net income from Islamic financing and investment products		645,116	424,821
Net interest income and income from Islamic financing and investment products net of distribution to depositors		7,412,181	5,833,811
Fee and commission income		2,593,574	2,997,620
Fee and commission expense		(628,230)	(751,280)
Net fee and commission income	27	1,965,344	2,246,340
Net gain/(loss) on trading securities	28	170,096	(136,370)
Other operating income	29	1,300,156	502,935
Total operating income		10,847,777	8,446,716
General and administrative expenses	30	(3,614,804)	(3,355,662)
Net impairment loss on financial assets	31	(3,634,972)	(1,652,536)
Total operating expenses		(7,249,776)	(5,008,198)
Operating profit		3,598,001	3,438,518
Amortisation of intangibles	13	(93,860)	(95,860)
Share of (loss)/profit of associates and joint ventures	10	(161,609)	338,575
Group profit for the year		3,342,532	3,681,233
Attributable to:			
Equity holders of the Group		3,345,836	3,680,517
Non-controlling interest		(3,304)	716
Group profit for the year		**3,342,532**	**3,681,233**

	Notes	2009 AED	2008 AED
Earnings per share	34	0.60	0.66

The notes set out on pages 14 to 92 form part of these Group consolidated financial statements.
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GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 AED 000	2008 AED 000
Group profit for the year	3,342,532	3,681,233
Other comprehensive income		
Cash flow hedges:		
- Effective portion of changes in fair value	(294,677)	188,437
Fair value reserve (available-for-sale investment securities):		
- Net change in fair value	413,154	(1,705,542)
- Net amount transferred to profit or loss	(89,270)	(104,812)
Other comprehensive income/(expense) for the year	29,207	(1,621,917)
Total comprehensive income for the year	**3,371,739**	**2,059,316**
Attributable to:		
Equity holders of the Bank	3,375,043	2,058,648
Non-controlling interest	(3,304)	668
Total recognised income for the year	**3,371,739**	**2,059,316**

The notes set out on pages 14 to 92 form part of these Group consolidated financial statements.

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GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 AED 000	2008 AED 000
OPERATING ACTIVITIES		
Group profit for the year	3,342,532	3,681,233
Adjustment for non cash items		
Impairment loss on loans and receivables	2,806,518	1,495,988
Impairment loss on Islamic financing and investment products	383,947	68,547
Impairment loss on investment securities	219,031	255,980
Impairment loss on due from banks	42,147	-
Impairment loss on investment in associates	316,000	-
Amortisation of intangibles	93,860	95,860
Depreciation of property and equipment	250,264	196,718
Share of (loss)/profit of associates and joint ventures	161,609	(338,575)
Operating profit before changes in operating assets and liabilities	7,615,908	5,455,751
Increase in statutory deposits	(2,488,302)	(8,327,107)
Decrease in amounts due from banks maturing after 3 months	1,972,336	55,360
Decrease in amounts due to banks maturing after 3 months	(1,284,597)	(1,260,176)
Net change in other liabilities/other assets	5,096,341	(2,962,152)
Net change in fair value of derivatives	(121,112)	624,922
Increase in customer deposits	18,847,450	21,638,228
Increase in loans and receivables	(9,502,418)	(37,607,108)
Decrease/(increase) in Islamic financing and investment products	627,815	(6,520,183)
Net cash flows from/(used in) operating activities	**20,763,421**	**(28,902,465)**
INVESTING ACTIVITIES		
Decrease in trading and investment securities (net of fair value movements)	2,976,486	1,897,911
Decrease in investments in associates and joint ventures	2,649	108,056
Decrease/(increase) in investment properties (net)	92,987	(313,635)
Sale of investment in joint venture	-	18,083
Additions to property and equipment (net)	(763,252)	(1,006,649)
Net cash flows from investing activities	**2,308,870**	**703,766**
FINANCING ACTIVITIES		
Increase/(decrease) in deposits under repurchase agreements	355,022	(2,349,624)
(Decrease)/increase in medium term borrowing (net)	(4,730,658)	3,396,509
Increase in non-controlling interest	673	94,205
Issue of tier I capital notes	4,000,000	-
Interest on tier I capital notes	(132,584)	-
Dividends paid	(1,010,505)	(1,537,724)
Net cash flows used in financing activities	**(1,518,052)**	**(396,634)**
Increase / (decrease) in cash and cash equivalents [refer note 44]	**21,554,239**	**(28,595,333)**

The notes set out on pages 14 to 92 form part of these Group consolidated financial statements.

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GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	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	Cumulative changes in fair value AED 000	Retained earnings AED 000	Total AED 000	Non-controlling interest AED 000	Group total AED 000
Balance as at 1 January 2008	4,393,498	(46,175)	-	12,270,124	1,260,205	3,917,410	863,890	2,497,919	25,156,871	1,903	25,158,774
Total comprehensive income for the year	-	-	-	-	-	-	(1,621,869)	3,680,517	2,058,648	668	2,059,316
Dividends paid	-	-	-	-	-	-	-	(1,537,724)	(1,537,724)	-	(1,537,724)
Issue of bonus shares	659,025	-	-	-	-	(659,025)	-	-	-	-	-
Investment in subsidiaries	-	-	-	-	-	-	-	-	-	94,205	94,205
Transfer to reserves	-	-	-	-	369,000	66,000	-	(435,000)	-	-	-
Directors' fees	-	-	-	-	-	-	-	(12,650)	(12,650)	-	(12,650)
Balance as at 31 December 2008	**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**

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 14 to 92 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 6.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	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	Cumulative changes in fair value AED 000	Retained earnings AED 000	Total AED 000	Non-controlling interest AED 000	Group total AED 00
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	-	-	-	-	-	-	-	(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 14 to 92 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 6.

1 LEGAL STATUS AND ACTIVITIES

Emirates NBD PJSC, ("ENBD" or 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 Bank is listed on the Dubai Financial Market. The Company's principal business activity is corporate, consumer, treasury and investment banking and asset management services. For details of activities of subsidiaries, refer to note 38.

The consolidated financial statements for the year ended 31 December 2009 comprise the bank and its subsidiaries (together referred to as the "Group") and the Groups' interest in associates and joint ventures.

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

These Group consolidated financial statements have been approved for issue by the Board of Directors on 10 February 2010.

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.

(b) Basis of measurement:

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

- Derivative financial instruments are measured at fair value;
- Financial instruments 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.

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).

2 BASIS OF PREPARATION (continued)

(c) Changes in accounting policies:

In October 2008 the IASB issued amended statements relating to the reclassification of Financial Assets (Amendments to IAS 39 Financial instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e. trading) category or the available-for-sale category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

- A financial asset may be transferred to the loans and receivables category if the financial asset meets the definition of loans and receivables at the redesignation date and if the entity has the intention and ability to hold the financial asset for the foreseeable future.
- A financial asset may be transferred out of the trading category to the available-for-sale category only in 'rare circumstances'.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments can be applied effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Group reclassified certain non-derivative financial assets out of trading securities and into available-for-sale investment securities in 2008.

(d) Presentation of financial statements:

The Group applies revised IAS 1 Presentation of Financial Statements (2007), 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.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(e) Segment reporting

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Group Executive Committee ("EXCO"), which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 'Operating Segments'. Previously operating segments were determined and presented in accordance with IAS 14 'Segment Reporting'.

Comparative segment information has been re-presented in conformity with the transitional requirements of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

2 BASIS OF PREPARATION (continued)

(f) Changes in accounting estimates

(i) Change in accounting estimate of fixed assets:

The policy for depreciation was changed to align the useful lives of the property, plant and equipment of EBI and NBD. The estimated useful lives applied in the current period for the Group are as below:

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

Freehold land and fixed assets not commissioned are not depreciated. 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.

A change in the estimate of the useful life of property, plant and equipment is accounted for prospectively as a change in estimate by adjusting depreciation in the current and future periods.

(ii) Change in accounting estimate of retail loan provisioning:

During the year, the Group has introduced a revised portfolio impairment provision ('PIP') methodology to cover the inherent risk of losses which, although not specifically identified, are known through experience to be present in the loan portfolio.

The PIP is set with reference to past experience using a flow rate methodology, as well as taking account of judgmental factors such as the economic environment and trends in portfolio indicators such as flow rates across all delinquency buckets and collections and recovery performance (including residential real estate price trends).

The PIP has been calculated to cover both loans for which payments are current and loans overdue for less than 180 days. Following the introduction of the PIP, specific provisions booked on retail loans overdue for less than 180 days have been reversed.

(g) Disclosures pertaining to fair value and liquidity risk for financial instruments:

The Group has applied 'Improving Disclosure about Financial instruments' (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments. The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level.

Revised disclosures in respect of fair values of financial instruments are included in note 43.

2 BASIS OF PREPARATION (continued)

(g) Disclosures pertaining to fair value and liquidity risk for financial instruments: (continued)

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows.

(h) 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) 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 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.

(iii) 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 balance sheet 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.

2 BASIS OF PREPARATION (continued)

(h) Basis of consolidation (continued)

(iv) Transaction 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 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.

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 investing assets, the Group also makes a collective impairment allowance to recognise that at any balance sheet 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 occurred (known as the "emergence period').

(ii) Fair value of financial instruments

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Use of estimates (continued)

(iv) Held-to-maturity investment securities

The Group follows the guidance of IAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity. In the event the Group fails to keep these investments to maturity other than for specific circumstances, such as selling an insignificant amount close to maturity, 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.

- 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;

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(1) Held-to-maturity (continued)

- 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 are taken to equity and recognised as a separate component in the balance sheet, 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.

- 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;
- Loans 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 balance sheet 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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(iii) Derecognition (continued)

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.

(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 balance sheet 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 balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet 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 balance sheet date taking into account the current creditworthiness of the counterparties.

(vii) Gains and losses on subsequent measurement

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(viii) Impairment

Financial assets are reviewed at each balance sheet 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 reduce the carrying amount of groups of homogenous loans and receivables to their estimated recoverable amounts at the balance sheet date. 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 balance sheet 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).

(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. Freehold buildings (other than those held as

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, equipment and depreciation (continued)

investment and development properties) are depreciated on a straight-line basis over a period of twenty five years.

Leasehold premises are amortised over their respective lease periods. Other assets are depreciated on a straight-line basis over their estimated useful lives, principally between three and ten years.

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.

(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 balance sheet 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

(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 are 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.

(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 re measured 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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Hedging instruments (continued)

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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Group consolidated balance sheet 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.

(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 balance sheet, 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Islamic financing and investment products (continued)

Definitions (continued)

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.

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.

(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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Intangible assets (continued)

(i) Goodwill (continued)

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 of 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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Impairment of non financial assets (continued)

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 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) Customer loyalty programmes

The Group retrospectively adopted IFRIC 13 'Customer loyalty programmes', which does not have a material impact on the Group's financial statements.

(v) New standards and interpretations not yet effective

Certain new standards and interpretations which are not yet effective for the year ended 31 December 2009 and therefore have not been applied in preparing these financial statements are as follows:

- 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, namely, 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.
- IAS 24 – Related party disclosures: This standard amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.

Other new standards, revisions and interpretations have no material impact on the financial statements of the Group.

4 CASH AND DEPOSITS WITH CENTRAL BANK

	2009 AED 000	2008 AED 000
Cash	2,255,808	1,780,638
Interest free statutory and special deposits with Central Bank	10,714,858	10,651,556
Interest bearing certificates of deposit with Central Bank	6,700,000	4,275,000
	19,670,666	**16,707,194**

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

5 DUE FROM BANKS

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

31 December 2008	Local AED 000	Foreign AED 000	Total AED 000
Time loans	250,740	3,191,520	3,442,260
Overnight, call and short notice	71,987	4,628,095	4,700,082
Gross due from banks	322,727	7,819,615	8,142,342
Specific allowances for impairment	-	(14,000)	(14,000)
	322,727	**7,805,615**	**8,128,342**

The average yield on these placements was 2.3% p.a. (2008: 2.9% p.a.).

6 LOANS AND RECEIVABLES

(a) By type	2009 AED 000	2008 AED 000
Overdrafts	72,354,260	59,438,355
Time loans	120,671,472	119,039,605
Loans against trust receipts	2,717,347	5,508,583
Bills discounted	1,511,562	2,014,525
Others	1,288,548	2,744,403
Gross loans and receivables	198,543,189	188,745,471
Other debt instruments	1,568,821	2,373,788
Total loans and receivables	200,112,010	191,119,259
Less: Allowances for impairment	(5,409,321)	(3,112,470)
	194,702,689	**188,006,789**
Total of impaired loans and receivables	**5,148,407**	**3,084,995**

Included in loans and receivables are other debt securities of AED 159 million (2008: Nil) that have been pledged under repurchase agreements [refer note 18].

(b) By segment	2009 AED 000	2008 AED 000
Corporate banking	170,944,509	161,157,992
Consumer banking	22,826,885	25,452,035
Treasury	931,295	1,396,762
	194,702,689	**188,006,789**

Movement in allowances for specific impairment	2009 AED 000	2008 AED 000
Balance as at 1 January	2,541,597	1,454,516
Allowances for impairment made during the year	1,713,518	1,284,655
Write back /recoveries made during the year	(170,414)	(121,568)
Amount transferred from Islamic financing	34,058	-
Amounts written off during the year	(373,311)	(76,006)
Balance as at 31 December	3,745,448	2,541,597
Movement in allowances for collective impairment		
Balance as at 1 January	570,873	359,540
Allowances for impairment made during the year	1,093,000	211,333
Balance as at 31 December	1,663,873	570,873
	5,409,321	**3,112,470**

7 ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2009 AED 000	2008 AED 000
Murabaha	5,264,249	7,151,783
Ijara	6,627,114	5,254,283
Sukuk funds	1,285,550	1,285,550
Credit card receivables	529,520	471,789
Wakala	3,804,343	4,403,500
Istissna'a	1,946,817	1,486,386
Others	1,677,884	1,929,316
Total Islamic financing and investment products	21,135,477	21,982,607
Less: Deferred income	(684,852)	(857,914)
Less: Allowances for impairment	(539,014)	(201,320)
	19,911,611	**20,923,373**
Total of impaired Islamic financing and investment products	**682,194**	**207,320**

Movement in allowances for specific impairment	2009 AED 000	2008 AED 000
Balance as at 1 January	201,320	157,748
Allowances for impairment made during the year	189,899	68,547
Recoveries made during the year	(11,526)	(24,317)
Amount transferred to loans and receivables	(34,058)	-
Amounts written off during the year	(669)	(658)
Balance as at 31 December	344,966	201,320
Movement in allowances for collective impairment		
Balance as at 1 January	-	-
Allowances for impairment made during the year	194,048	-
Balance as at 31 December	194,048	-
	539,014	**201,320**

8 TRADING SECURITIES

	Domestic AED 000	International AED 000	Total AED 000
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**
31 December 2008			
Government bonds	24,027	-	24,027
Corporate bonds	110,244	83,168	193,412
Equity	27,006	-	27,006
	161,277	**83,168**	**244,445**

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 2008 AED 000		31 December 2009 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	1,025,804	1,025,804	541,239	541,239
	993,491	**993,491**	**1,025,804**	**1,025,804**	**541,239**	**541,239**

The table below sets out the amounts recognised in the income statement and equity during 2009 in respect of financial assets reclassified out of trading securities into available-for-sale investment securities:

8 TRADING SECURITIES (continued)

	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 2009)		
Interest income	78,936	-
Net change in fair value	-	(38,397)
	78,936	**(38,397)**

The table below sets out the amounts that would have been recognised during 2009, had the reclassifications not been made:

	2009 AED 000
Net trading profit	**40,539**

9 INVESTMENT SECURITIES

31 December 2009	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	-	99,714	-	99,714
Corporate bonds	153,042	251,141	71,699	475,882
	153,042	350,855	71,699	575,596
AVAILABLE-FOR-SALE:				
Government bonds	637,663	-	1,987,812	2,625,475
Corporate bonds	2,854,539	713,796	3,819,630	7,387,965
Equity	554,519	1,403,061	831,847	2,789,427
Others	86,633	293,952	964,980	1,345,565
	4,133,354	2,410,809	7,604,269	14,148,432
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Equity	43,339	110,396	-	153,735
Hybrid instruments	-	-	28,704	28,704
Others	855,139	1,427	389,487	1,246,053
	898,478	111,823	418,191	1,428,492
	5,184,874	**2,873,487**	**8,094,159**	**16,152,520**

9 INVESTMENT SECURITIES (continued)

31 December 2008	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	-	100,076	31,734	131,810
Corporate bonds	122,433	272,841	105,801	501,075
	122,433	372,917	137,535	632,885
AVAILABLE-FOR-SALE:				
Government bonds	593,480	79,431	614,866	1,287,777
Corporate bonds	4,132,855	779,541	5,752,750	10,665,146
Equity	652,419	1,710,870	1,240,766	3,604,055
Others	140,898	43,064	451,311	635,273
	5,519,652	2,612,906	8,059,693	16,192,251
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Government bonds	19,331	-	-	19,331
Corporate bonds	89,174	-	-	89,174
Equity	34,242	151,174	38,645	224,061
Hybrid instruments	-	-	28,149	28,149
Others	965,070	94,318	1,145,562	2,204,950
	1,107,817	245,492	1,212,356	2,565,665
	6,749,902	**3,231,315**	**9,409,584**	**19,390,801**

Included in available-for-sale investment securities is an amount of AED 3,456 million (2008: AED 3,260 million), pledged under repurchase agreements with banks [refer note 18].

Investment securities include investments in real estate funds as follows:

	2009 AED 000	2008 AED 000
Designated at fair value through profit or loss	284,852	420,826
Available-for-sale	1,006,782	994,585
	1,291,634	**1,415,411**

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2009 AED 000	2008 AED 000
Investments in associates	2,441,993	2,924,658
Investments in joint ventures	2,557	150
Total	**2,444,550**	**2,924,808**

Movement in investments in associates:

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

	2009 AED 000	2008 AED 000
Balance as at 1 January	2,924,658	2,694,289
Share of (loss)/profit	(162,199)	338,575
Impairment made during the year	(316,000)	-
Sale of investments	-	(90,338)
Dividends	(4,466)	(17,868)
Balance as at 31 December	**2,441,993**	**2,924,658**

Aggregated financial information of the material associates is Assets of AED 18,036 million (2008: AED 19,775 million), Liabilities of AED 12,255 million (2008: AED 13,523 million), Revenue of AED 4,454 million (2008: AED 3,703 million) and loss of AED 465 million (2008: profit of AED 783 million). At the Board approval date, equity accounting was applied using management information available at the time. Subsequent changes are not considered material.

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.

On 23 November 2008, NI set up Obernet L.L.C., a joint venture with Oberthur Cards Systems. NI holds 51% of the share capital and exercises joint control of the management of the company.

On 5 May 2008, the Group completed the sale of its investment in a joint venture, Mena Factors Limited, for a total consideration of AED 19.3 million. A profit of AED 0.6 million, being the proceeds received on sale less the carrying value of the investment, was recognised.

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Movement in investments in joint ventures:

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

	2009 AED 000	2008 AED 000
Balance as at 1 January	150	18,083
Share of profits	590	-
Sale of joint venture	-	(18,083)
Setup of a joint venture	1,817	150
Balance as at 31 December	**2,557**	**150**

Investment in / sale of subsidiaries

(i) Merger of Emirates Investment Securities and NBD Securities LLC

On 8 November 2009, Emirates International Securities LLC ("EIS"), a subsidiary of the Group, received regulatory approval to merge with NBD Securities LLC, another subsidiary of the Group and changed its name from Emirates International Securities LLC to Emirates NBD Securities LLC.

On 21 November 2009 (the effective date), NBD Securities LLC transferred all its assets and liabilities to EIS to complete the merger of the two entities.

(ii) Liquidation of Al Watani Al Islamic PJSC

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

(iii) Acquisition of Ithmar

On 9 June 2008, Emirates Islamic Bank PJSC ("EIB"), a subsidiary of the Group, set up and subscribed to a 40% stake in Ithmar Real Estate Development PSC ('Ithmar'), a company engaged in real estate development, for a consideration of AED 62 million. Ithmar is being consolidated with the Group's financial statements under IAS 27 'Consolidated and Separate Financial Statements' (as the Group has the majority of the votes in the Board of Directors, which signifies management control).

(iv) Acquisition of Sana Capital Limited

On 6 February 2008, Emirates NBD Capital, a subsidiary of the Group, set up and subscribed to a 56.2% stake in NBD Sana Capital Limited, a DIFC registered company engaged in Private Equity management, for an initial cash consideration of AED 1.5 million.

11 INVESTMENT PROPERTIES

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

	2009 AED 000	2008 AED 000
Balance as at 1 January	796,107	482,472
Additions	65,658	254,740
Transfer to fixed assets not commissioned	(90,927)	-
Sale of investment properties	-	(4,831)
Fair value revaluation (loss)/gain	(67,718)	63,726
Balance as at 31 December	**703,120**	**796,107**

	2009 AED 000	2008 AED 000
Investment properties at 31 December consist of:		
Freehold land and buildings	**703,120**	**796,107**

12 PROPERTY AND EQUIPMENT

	Freehold land and property AED 000	Leasehold premises and improvements AED 000	Others AED 000	Fixed assets not commissioned AED 000	Total AED 000
COST					
As at 1 January 2009	1,048,974	212,290	660,813	1,463,594	3,385,671
Additions	14,031	21,503	126,190	613,207	774,931
Transfers	115,393	58,453	312,822	(486,668)	-
Disposals	-	(12,228)	(9,393)	(8,276)	(29,897)
As at 31 December 2009	**1,178,398**	**280,018**	**1,090,432**	**1,581,857**	**4,130,705**
ACCUMULATED DEPRECIATION					
As at 1 January 2009	109,260	102,025	381,768	-	593,053
Charge for the year	47,300	39,743	163,221	-	250,264
Disposals	-	(10,671)	(7,547)	-	(18,218)
As at 31 December 2009	**156,560**	**131,097**	**537,442**	**-**	**825,099**
Net book value as at 31 December 2009	**1,021,838**	**148,921**	**552,990**	**1,581,857**	**3,305,606**

12 PROPERTY AND EQUIPMENT (continued)

	Freehold land and property AED 000	Leasehold premises and improvements AED 000	Others AED 000	Fixed assets not commissioned AED 000	Total AED 000
COST					
As at 1 January 2008	918,042	156,345	553,136	771,087	2,398,610
Additions	131,027	16,407	98,959	760,332	1,006,725
Transfers	-	41,187	26,638	(67,825)	-
Disposals	(95)	(1,649)	(17,920)	-	(19,664)
As at 31 December 2008	**1,048,974**	**212,290**	**660,813**	**1,463,594**	**3,385,671**
ACCUMULATED DEPRECIATION					
As at 1 January 2008	71,906	63,328	280,689	-	415,923
Charge for the year	37,449	40,346	118,923	-	196,718
Disposals	(95)	(1,649)	(17,844)	-	(19,588)
As at 31 December 2008	**109,260**	**102,025**	**381,768**	**-**	**593,053**
Net book value as at 31 December 2008	**939,714**	**110,265**	**279,045**	**1,463,594**	**2,792,618**

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

13 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles			Total
31 December 2009	**AED 000**	**Software AED 000**	**Customer relationships AED 000**	**Core deposit intangibles AED 000**	**AED 000**
Cost					
Balance as at 1 January	5,527,578	9,281	564,760	157,490	6,259,109
Amortisation and impairment					
Balance as at 1 January	4,903	3,875	74,000	37,000	119,778
Amortisation and impairment for the year	-	1,860	60,000	32,000	93,860
Balance as at 31 December	4,903	5,735	134,000	69,000	213,638
NET	**5,522,675**	**3,546**	**430,760**	**88,490**	**6,045,471**
31 December 2008					
Cost	5,527,578	9,281	564,760	157,490	6,259,109
Amortisation and impairment	4,903	3,875	74,000	37,000	119,778
NET	**5,522,675**	**5,406**	**490,760**	**120,490**	**6,139,331**

Emirates NBD

13 GOODWILL AND INTANGIBLES (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations with indefinite lives has been allocated to three individual cash-generating units, which are also reportable segments, for impairment testing as follows:

- Corporate banking
- Consumer banking
- Treasury

Key assumptions used in value in use calculations

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 following rates are used by the Group:

- Discount rate: At a constant rate of 12.6%
- Projected growth rate:

	2010 %	2011 %	2012 %
Corporate banking	5	5	5
Consumer banking	5	5	5
Treasury	5	5	5

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").

13 GOODWILL AND INTANGIBLES (continued)

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

Sensitivity to changes in assumptions

Management believes that changes in key assumptions used to determine the recoverable amount in each segment will not result in an impairment of goodwill.

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.

14 OTHER ASSETS

	2009 AED 000	2008 AED 000
Accrued interest receivable	1,009,963	1,929,138
Prepayments and other advances	330,736	328,690
Sundry debtors and other receivables	606,239	744,237
Others	652,714	4,173,655
	2,599,652	**7,175,720**

Others include foreign exchange split value and arbitrage deals amounting to AED Nil (2008: AED 3,060 million).

15 DUE TO BANKS

	2009 AED 000	2008 AED 000
Demand and call deposits	1,843,559	2,073,486
Balances with correspondent banks	1,049,627	99,337
Time and other deposits	27,101,876	46,252,815
	29,995,062	**48,425,638**

Time and other deposits include an amount of AED Nil (2008: AED 4,441 million) received from the Central Bank of the UAE against collateral deposits placed with them.

The interest rates paid on the above averaged 1.6% p.a. (2008: 2.8% p.a.).

16 CUSTOMER DEPOSITS

	2009 AED 000	2008 AED 000
Demand, call and short notice	44,227,776	44,383,076
Time	106,075,857	88,379,690
Savings	6,026,492	5,845,429
Others	1,646,416	1,371,609
	157,976,541	**139,979,804**

The interest rates paid on the above deposits averaged 2.7% p.a. in 2009 (2008: 2.4% p.a.).

Customer deposits include AED 11,502 million (2008: AED 11,502 million) pertaining to facilities received from the Ministry of Finance of the UAE in December 2008.

17 ISLAMIC CUSTOMER DEPOSITS

	2009 AED 000	2008 AED 000
Demand, call and short notice	4,106,456	5,786,147
Time	17,177,694	14,968,507
Savings	1,739,459	1,435,821
Others	162,241	144,662
	23,185,850	**22,335,137**

Islamic customer deposits include AED 1,082 million (2008: AED 1,082 million) pertaining to facilities received from the Ministry of Finance of the UAE in December 2008.

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FOR THE YEAR ENDED 31 DECEMBER 2009

18 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:

	2009 AED 000	2008 AED 000
Available-for-sale investment securities	3,455,963	3,260,419
Loans and receivables	159,478	-
	3,615,441	**3,260,419**

19 DEBT ISSUED AND OTHER BORROWED FUNDS

	2009 AED 000	2008 AED 000
Medium term note programme	18,563,422	23,293,330
Syndicated borrowings from banks	5,508,750	5,509,500
	24,072,172	**28,802,830**

The Group has outstanding medium term borrowings totalling AED 24,072 million (2008: AED 28,803 million) which will be repaid as follows:

	2009 AED million	2008 AED million
2009	-	5,837
2010	7,239	5,929
2011	4,090	2,941
2012	7,760	7,384
2013	1,052	1,408
2014	220	213
2016	2,332	3,651
2018	1,379	1,440
	24,072	**28,803**

The interest rate paid on the above averaged 2.5% p.a. in 2009 (2008: 3.9% p.a.).

19 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

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

	2009 AED million	2008 AED million
US$500 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2016	1,435	1,836
US$500 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2016	897	1,815
AED 1,000 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2018	939	1,000
AED 440 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2018	440	440
	3,711	**5,091**

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 2009 and 2008.

20 OTHER LIABILITIES

	2009 AED 000	2008 AED 000
Accrued interest payable	1,055,737	1,019,000
Profit payable to Islamic depositors	213,875	233,797
Managers' cheques	402,011	517,918
Trade and other payables	636,564	658,371
Staff related liabilities	746,366	669,574
Provision for taxation [refer note 33]	1,578	17,215
Others	1,450,363	849,746
	4,506,494	**3,965,621**

21 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 5,557,774,724 ordinary shares of AED 1 each (2008: 5,052,522,477 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 2008	4,393,497,806	4,393,498	12,270,124
Issue of bonus shares	659,024,671	659,025	-
As at 31 December 2008	**5,052,522,477**	**5,052,523**	**12,270,124**
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**

In March 2009, 505,252,247 shares were issued by the Group pursuant to a bonus issue (2008: 659,024,671 shares).

At the forthcoming Annual General Meeting which will be held on 24 March 2010, the Group is proposing a cash dividend of AED 0.20 per share for the year (2008: AED 0.20 per share) amounting to AED 1,112 million (2008: AED 1,011 million).

22 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.

23 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 335 million (2008: AED 369 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.

23 RESERVES (continued)

	Legal and statutory reserves AED 000	Regular reserves AED 000	Other reserves AED 000	Total AED 000
At 1 January 2009	1,629,205	505,400	2,818,985	4,953,590
Issue of bonus shares	-	-	(505,252)	(505,252)
Transfer from Group consolidated income statement	335,000	50,400	-	385,400
At 31 December 2009	**1,964,205**	**555,800**	**2,313,733**	**4,833,738**

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

24 NET INTEREST INCOME

	2009 AED 000	2008 AED 000
Interest income		
Loans and receivables to customers	11,028,914	9,242,464
Loans and receivables to banks	173,065	799,089
Other debt securities	39,391	128,841
Available-for-sale investment securities	406,556	618,799
Held to maturity investment securities	7,853	21,440
Trading securities and designated at fair value through profit or loss investment securities	19,050	12,774
Others	297,409	332,505
Total interest income	**11,972,238**	**11,155,912**
Interest expense		
Deposits from customers	4,169,341	3,138,171
Borrowings from banks and financial institutions	911,817	1,953,018
Borrowings under commercial paper	40,617	427,583
Securities lent and repurchase agreements	6,346	30,046
Others	77,052	198,104
Total interest expense	**5,205,173**	**5,746,922**
	6,767,065	**5,408,990**

Included in various lines under interest income for the year 31 December 2009 is a total of AED 6.2 million (2008: AED 4.2 million) accrued on impaired financial assets.

25 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2009 AED 000	2008 AED 000
Murabaha	396,459	437,068
Ijara	528,267	350,006
Istissna'a	71,869	69,858
Sukuk funds	102,768	100,522
Wakala	204,838	181,806
Others	47,954	40,997
	1,352,155	**1,180,257**

26 DISTRIBUTION TO DEPOSITORS AND PROFIT PAID TO SUKUK HOLDERS

	2009 AED 000	2008 AED 000
Distribution to depositors	690,388	709,001
Profit paid to sukuk holders	16,651	46,435
	707,039	**755,436**

Distribution to depositors represents the share of income between depositors and equity holders' due to depositors of the Group's Islamic banking subsidiary, Emirates Islamic Bank PJSC. 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.

27 NET FEE AND COMMISSION INCOME

	2009 AED 000	2008 AED 000
Fee and commission income [refer note below]	2,390,139	2,719,324
Brokerage fees	42,003	51,167
Portfolio and other management fees	161,432	227,129
Total fee and commission income	2,593,574	2,997,620
Fee and commission expense	(628,230)	(751,280)
	1,965,344	**2,246,340**

Fee and commission income includes:

	2009 AED 000	2008 AED 000
Commission on trade finance products / services	557,079	614,091
Fee income	1,161,472	1,456,279
Commission on card related acquiring business	671,588	648,954
	2,390,139	**2,719,324**

Emirates NBD

28 NET GAIN/(LOSS) ON TRADING SECURITIES

	2009 AED 000	2008 AED 000
Realised gain/(loss) on trading securities	154,414	(734)
Unrealised gain/(loss) on trading securities	15,682	(135,636)
	170,096	**(136,370)**

29 OTHER OPERATING INCOME

	2009 AED 000	2008 AED 000
Dividend income	88,170	103,879
Gains from sale of available-for-sale investment securities	202,688	497,550
Loss from sale of other debt securities	(29,985)	(342,535)
Loss from investment securities designated at fair value through profit or loss	(10,308)	(812,286)
Rental income	25,578	19,475
Revaluation (loss)/gain on investment properties	(67,718)	63,726
Interest rate instruments	(5,895)	40,903
Foreign exchange income	764,415	1,080,802
Other income/(expense)	333,211	(148,579)
	1,300,156	**502,935**

30 GENERAL AND ADMINISTRATIVE EXPENSES

Charges to general and administrative expenses in respect of depreciation amounted to AED 250 million (2008: AED 197 million).

The charge also includes staff related expenses of AED 2,181 million (2008: AED 2,189 million) and occupancy expenses of AED 282 million (2008: AED 229 million)

During the year an amount of AED 31 million (2008: AED 23 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.

31 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2009 AED 000	2008 AED 000
Net impairment of loans and receivables [refer note 6]	(2,636,104)	(1,374,420)
Net impairment of Islamic financing and investment products [refer note 7]	(372,421)	(44,230)
Net impairment of investment securities	(219,031)	(255,980)
Net impairment on investment in associates	(316,000)	-
Net impairment of due from banks	(42,147)	-
Bad debt written off/ recovered	(49,269)	22,094
	(3,634,972)	**(1,652,536)**

32 DIRECTORS' FEES

This comprises of fees payable to the directors of the Group of AED 20.6 million (2008: AED 19.5 million). The 2009 figure includes fees payable to the directors of subsidiaries of AED 10.1 million (2008: AED 6.7 million).

33 TAXATION

At 31 December 2009 provisions for tax payable on overseas branch operations amount to AED 1.6 million (2008: AED 17.2 million) [refer note 20].

34 EARNINGS PER SHARE

The basic earnings per share is based on earnings of AED 3,346 million, being the profit attributable to the equity holders for the year ended 31 December 2009 (2008: AED 3,681 million), and based on 5,557,774,724 shares. The 2008 earnings per share has been adjusted to reflect the issue of bonus shares made in 2009.

35 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.

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35 DERIVATIVES (continued)

31 December 2009 notional amounts by term to maturity

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

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35 DERIVATIVES (continued)

31 December 2008 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	2,625,957	(2,373,571)	88,680,706	46,088,083	40,257,610	2,268,961	30,886	35,166
Foreign exchange options	59,976	(60,079)	1,945,532	525,594	1,053,828	366,110	-	-
Interest rate swaps/caps	3,130,113	(2,619,751)	52,746,455	1,384,843	4,130,845	9,707,516	15,862,653	21,660,598
Credit derivatives	32,933	(544,333)	7,260,419	73,460	146,920	2,332,355	4,566,641	141,043
	5,848,979	**(5,597,734)**	**150,633,112**	**48,071,980**	**45,589,203**	**14,674,942**	**20,460,180**	**21,836,807**
Derivatives held as cash flow hedges:								
Interest rate swaps	474,515	(147,664)	18,585,114	1,075,070	3,068,276	6,905,908	7,140,510	395,350
Derivatives held as fair value hedges:								
Interest rate swaps	-	(9,069)	131,895	-	55,095	-	-	76,800
Total	**6,323,494**	**(5,754,467)**	**169,350,121**	**49,147,050**	**48,712,574**	**21,580,850**	**27,600,690**	**22,308,957**

35 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.

36 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 2009 was AED 5.1 million (2008: AED 5.1 million) for LTIP and AED 0.5 million (2008: AED 1.2 million) for ELTIP.

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

	LTIP	**ELTIP**
LTI outstanding as at 1 January 2009	5,998,502	1,297,111
LTI units granted during the year	1,069,206	232,029
LTI units forfeited/lapsed during the year	(139,769)	-
LTI units vested during the year	(2,194,808)	(498,330)
LTI units outstanding as at 31 December 2009	**4,733,131**	**1,030,810**

Emirates NBD

37 BUSINESS SEGMENT REPORTING

The Group is organised into the following main businesses:

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

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

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

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

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

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

37 BUSINESS SEGMENT REPORTING (continued)

31 December 2009	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic banking AED 000	Cards processing AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,226,368	2,138,281	1,109,885	702,686	2,389	232,572	7,412,181
Net fee, commission and other income	1,248,403	789,811	401,162	140,532	422,418	433,270	3,435,596
Total operating income	4,474,771	2,928,092	1,511,047	843,218	424,807	665,842	10,847,777
General and administrative expenses	(380,615)	(1,271,765)	(74,445)	(405,759)	(226,097)	(1,256,123)	(3,614,804)
Net specific impairment loss on financial assets	(580,017)	(913,704)	(358,532)	(169,355)	-	(326,316)	(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)
Group profit for the year	**3,159,139**	**4,623**	**1,078,070**	**74,056**	**199,300**	**(1,172,656)**	**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	**92,888,389**	**58,263,499**	**38,983,836**	**26,800,207**	**1,125,301**	**63,515,250**	**281,576,482**

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37 BUSINESS SEGMENT REPORTING (continued)

31 December 2008

	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic banking AED 000	Cards processing AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	2,639,724	2,222,724	337,692	517,632	3,770	112,269	5,833,811
Net fee, commission and other income	1,008,433	789,970	(34,329)	410,433	371,780	66,618	2,612,905
Total operating income	3,648,157	3,012,694	303,363	928,065	375,550	178,887	8,446,716
General and administrative expenses	(377,777)	(1,191,796)	(79,771)	(387,283)	(166,385)	(1,152,650)	(3,355,662)
Net specific impairment loss on financial assets	55,903	(432,304)	(982,688)	(68,205)	-	(14,242)	(1,441,536)
Net collective impairment loss on financial assets	(111,000)	(100,000)	-	-	-	-	(211,000)
Amortisation of intangibles	-	-	-	-	-	(95,860)	(95,860)
Share of profit of associates and joint ventures	-	-	-	-	-	338,575	338,575
Group profit for the year	**3,215,283**	**1,288,594**	**(759,096)**	**472,577**	**209,165**	**(745,290)**	**3,681,233**
Segment assets	**166,512,422**	**31,311,677**	**36,244,662**	**27,105,263**	**412,932**	**20,826,720**	**282,413,676**
Segment liabilities and equity	**82,014,725**	**48,928,900**	**53,943,166**	**27,287,793**	**684,263**	**69,554,829**	**282,413,676**

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38 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The principal direct subsidiaries of the Group are as follows:-

As at 31 December 2009

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

Any material changes in the Group's principal direct subsidiaries during the year 2009 and 2008 have been disclosed in note 10.

39 OPERATING LEASES

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

	2009 AED 000	2008 AED 000
Less than one year	44,557	54,686
Between one and five years	232,035	333,582
More than five years	23,614	5,071
	300,206	**393,339**

40 COMMITMENTS AND CONTINGENCIES

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

	2009 AED 000	2008 AED 000
Letters of credit	11,263,371	17,955,417
Guarantees	36,079,962	50,693,534
Liability on risk participations	1,224,421	2,938,259
Irrevocable loan commitments	10,092,483	24,126,946
	58,660,237	**95,714,156**

(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 497 million (2008: AED 424 million).

41 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:

	2009 AED 000	2008 AED 000
Loans to majority shareholder of the ultimate parent	48,982,478	34,780,551
Deposits from the majority shareholder of the ultimate parent	606,285	229,467
Investment in bonds of the majority shareholder of the ultimate parent	598,830	528,979
Loans to the ultimate parent	920,386	927,669
Deposits by the ultimate parent	6,736,377	6,747,215
Loans to directors and related companies	1,713,817	3,637,679
Loans to associates	3,782,210	3,296,387
Loans to and investments in funds managed by the Group	1,661,145	1,791,057
Payments made to associates	56,437	60,254
Fees received in respect of funds managed by the Group	88,901	125,844
Interest paid to funds managed by the Group	19,758	57,469
Short term and post employment benefits to directors and key management personnel	50,914	51,105

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.

42 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

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

31 December 2009:

	GCC AED 000	International AED 000	Total AED 000
ASSETS			
Cash and deposits with Central Bank	19,670,666	-	19,670,666
Due from banks	2,398,454	7,648,495	10,046,949
Loans and receivables	190,814,750	3,887,939	194,702,689
Islamic financing and investment products	19,889,139	22,472	19,911,611
Trading securities	610,847	246	611,093
Investment securities	8,058,358	8,094,162	16,152,520
Investments in associates and joint ventures	2,441,993	2,557	2,444,550
Positive fair value of derivatives	-	2,819,686	2,819,686
Investment properties	703,120	-	703,120
Property and equipment	3,260,395	45,211	3,305,606
Goodwill and Intangibles	6,045,471	-	6,045,471
Customer acceptances	2,562,869	-	2,562,869
Other assets	2,599,652	-	2,599,652
TOTAL ASSETS	**259,055,714**	**22,520,768**	**281,576,482**
LIABILITIES			
Due to banks	11,971,696	18,023,366	29,995,062
Customer deposits	143,470,779	14,505,762	157,976,541
Islamic customer deposits	22,748,571	437,279	23,185,850
Repurchase agreements with banks	-	3,615,441	3,615,441
Debt issued and other borrowed funds	-	24,072,172	24,072,172
Sukuk payable	1,267,185	-	1,267,185
Negative fair value of derivatives	-	2,424,224	2,424,224
Customer acceptances	2,562,869	-	2,562,869
Other liabilities	4,506,494	-	4,506,494
TOTAL EQUITY	31,970,644	-	31,970,644
TOTAL LIABILITIES AND EQUITY	**218,498,238**	**63,078,244**	**281,576,482**
Geographical distribution of off balance sheet items – 2009			
Letters of credit and guarantees	44,290,537	3,052,796	47,343,333

31 December 2008:

	GCC AED 000	International AED 000	Total AED 000
Geographical distribution of assets	**252,183,319**	**30,230,357**	**282,413,676**
Geographical distribution of liabilities and equity	**205,586,586**	**76,827,090**	**282,413,676**
Geographical distribution of letters of credit and guarantees	**66,174,047**	**2,474,904**	**68,648,951**

43 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 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**

43 FINANCIAL ASSETS AND LIABILITIES (continued)

As at 31 December 2008:

	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	-	-	-	-	8,128,342	-	-	8,128,342	8,148,090	19,748
Loans and receivables	-	-	-	188,006,789	-	-	-	188,006,789	187,118,965	(887,824)
Islamic financing and investment products	-	-	-	20,923,373	-	-	-	20,923,373	20,923,373	-
Trading securities	244,445	-	-	-	-	-	-	244,445	244,445	-
Investment securities	2,565,665	632,885	16,192,251	-	-	-	-	19,390,801	19,391,740	939
Investments in associates and joint ventures	-	-	-	-	-	-	2,924,808	2,924,808	1,539,083	(1,385,725)
Positive fair value of derivatives	5,848,979	-	-	-	-	474,515	-	6,323,494	6,323,494	-
Others	-	-	-	-	-	-	24,962,930	24,962,930	24,962,930	-
	8,659,089	**632,885**	**16,192,251**	**208,930,162**	**8,128,342**	**474,515**	**27,887,738**	**270,904,982**	**268,652,120**	**(2,252,862)**
Financial liabilities										
Due to banks	-	-	-	-	48,425,638	-	-	48,425,638	48,489,885	(64,247)
Customer deposits	-	-	-	-	139,979,804	-	-	139,979,804	139,979,804	-
Islamic customer deposits	-	-	-	-	22,335,137	-	-	22,335,137	22,335,137	-
Repurchase agreements with banks	-	-	-	-	3,260,419	-	-	3,260,419	3,260,419	-
Debt issued and other borrowed funds	-	-	-	-	28,802,830	-	-	28,802,830	28,802,830	-
Sukuk payable	-	-	-	-	1,267,185	-	-	1,267,185	1,267,185	-
Negative fair value of derivatives	5,597,734	-	-	-	-	156,733	-	5,754,467	5,754,467	-
Others	-	-	-	-	-	-	6,826,275	6,826,275	6,826,275	-
	5,597,734	**-**	**-**	**-**	**244,071,013**	**156,733**	**6,826,275**	**256,651,755**	**256,716,002**	**(64,247)**

43 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 2009.

(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 (d)] and amount to AED 2,444.5 million at 31 December 2009 (AED 2,924.8 million at 31 December 2008). The fair value of the investments in the associate companies, which are public quoted companies on the Dubai Financial Market, amounts to AED 1,539.5 million at 31 December 2009 (AED 1,539.1 million at 31 December 2008).

(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.

(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

43 FINANCIAL ASSETS AND LIABILITIES (continued)

(h) Due to banks (continued)

applying the market interest rates prevailing at the year end to these deposits.

(i) Repurchase agreement with banks

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

(j) Debt issued and other borrowed funds

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

Valuation of financial instruments

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

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

	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
31 December 2009				
Financial assets held for trading	365,263	245,830	-	611,093
Available-for-sale financial assets	7,725,846	3,226,657	3,195,929	14,148,432
Financial assets designated at fair value through profit or loss	724,746	681,878	21,868	1,428,492
Positive/(negative) fair value of derivatives	(570)	416,033	(20,001)	395,462
	8,815,285	**4,570,398**	**3,197,796**	**16,583,479**

During the financial year ended 31 December 2009 available for sale financial assets with a carrying amount of 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 AED 47 million during the year 2009.

44 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

	2009 AED 000	2008 AED 000
(a) Analysis of changes in cash and cash equivalents during the year		
Balance at beginning of year	(38,367,574)	(9,772,241)
Net cash inflow/(outflow)	21,554,239	(28,595,333)
Balance at end of year	**(16,813,335)**	**(38,367,574)**
(b) Analysis of cash and cash equivalents		
Cash and deposits with Central Bank	19,670,666	16,707,194
Due from banks	10,046,949	8,128,342
Due to banks	(29,995,062)	(48,425,638)
	(277,447)	(23,590,102)
Less : deposits with Central Bank for regulatory purposes	(17,414,858)	(14,926,556)
Less : amounts due from banks maturing after three months	(308,475)	(2,322,958)
Add : amounts due to banks maturing after three months	1,187,445	2,472,042
	(16,813,335)	**(38,367,574)**

45 CAPITAL MANAGEMENT AND ALLOCATION

The Central Bank of the UAE, which is the regulatory authority for banks in the UAE, sets and monitors capital requirements for the Group.

For implementing current capital requirements, the Central Bank of the UAE requires the Group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 11%. Risk weighted assets take into account on balance sheet and off balance sheet transactions and are allocated to individual operations on that basis.

The Group's regulatory capital is calculated as per the guidelines of the Central Bank of the UAE and analysed into two tiers:

- 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 cumulative changes in fair value.

45 CAPITAL MANAGEMENT AND ALLOCATION (continued)

The capital adequacy ratio:

	2009 AED 000	2008 AED 000
Tier I capital		
Issued capital	5,557,775	5,052,523
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	1,964,205	1,629,205
Other reserves	2,869,533	3,324,385
Retained earnings	5,989,809	4,193,062
Tier I capital notes	4,000,000	-
Non-controlling interest	94,145	96,776
Total tier I capital	32,745,591	26,566,075
Less : Goodwill and Intangibles	(6,045,471)	(6,139,331)
Less : Treasury shares	(46,175)	(46,175)
Total	26,653,945	20,380,569
Tier II capital		
Cumulative changes in fair value	(728,772)	(757,979)
Hybrid (debit/equity) capital instruments	12,196,085	-
Subordinated debt	3,710,830	5,091,329
Total	15,178,143	4,333,350
Total regulatory capital	**41,832,088**	**24,713,919**

RISK WEIGHTED EXPOSURE

	2009 AED 000	2008 AED 000
Corporate banking	151,585,888	162,465,665
Consumer banking	24,522,976	28,504,783
Treasury	17,274,597	12,441,420
Others	7,796,846	13,873,710
Total	**201,180,307**	**217,285,578**

Capital Ratio:

Total regulatory capital as a percentage of total risk weighted assets	20.80%	11.4%
Total tier I capital as a percentage of risk weighted assets	13.25%	9.4%

46 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 5,256 million at 31 December 2009 (2008: AED 7,204 million).

47 RISK MANAGEMENT

Risk management framework and processes:

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

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

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

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

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

Scope and nature of risk reporting tools:

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

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

Risk management process:

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

Emirates NBD

47 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, provisioning guidelines and cross over activity.

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

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

Management of corporate credit risk:

The process of managing corporate credit risk is as follows:

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

Management of consumer credit risk:

- An independent unit formulates retail credit policies and monitors compliance.
- Policies are reviewed and updated on a regular basis to ensure that current market trends are considered on a timely basis.
- Retail lending is handled through a workflow driven system that assists underwriters in assigning limits and in the approval of exceptions.
- All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk and reward dynamics.

47 RISK MANAGEMENT (continued)

Credit risk: (continued)

- The risk grade of an account reflects the associated risks measured by the delinquency history. Application and behavior probability of defaults ("PDs") are used to map retail exposures to the Masterscale, which is presently under validation/testing.

Credit risk monitoring:

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

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

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

Group credit risk mitigation strategy:

The Group operates within:

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

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

47 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:

	2009 AED 000		2008 AED 000	
	Loans and receivables	Others	Loans and receivables	Others
Agriculture and allied activities	93,637	1,503	164,575	1,698
Mining and quarrying	343,671	39,234	397,739	382
Manufacturing	8,542,742	1,154,303	10,828,330	712,148
Construction	7,391,491	2,249,920	8,217,445	2,671,579
Trade	8,066,477	806,986	10,992,032	1,197,751
Transport and communication	6,262,372	1,373,433	7,313,519	1,458,309
Services	22,274,736	2,350,054	18,210,070	1,743,606
Sovereign	49,021,516	3,039,214	36,175,267	3,116,120
Personal - retail	24,497,978	656,319	25,759,725	681,558
Personal - corporate	11,785,532	1,575,740	14,341,194	1,377,214
Real estate	27,056,045	12,183,010	24,367,923	9,698,520
Banks	376,098	15,853,165	527,258	14,697,910
Other financial institutions and investment companies	26,121,396	4,898,656	28,395,190	7,394,179
Others	8,278,319	4,740,252	5,428,992	8,198,808
Total assets	200,112,010	50,921,789	191,119,259	52,949,782
Less: Allowances for impairment	(5,409,321)	(1,070,214)	(3,112,470)	(480,099)
Less: Deferred income	-	(684,852)	-	(857,914)
	194,702,689	**49,166,723**	**188,006,789**	**51,611,769**

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

47 RISK MANAGEMENT (continued)

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

As of 31 December 2009

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

Of which issued by:

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

47 RISK MANAGEMENT (continued)

As of 31 December 2008

	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	-	-	1,415,376	-	1,415,376
AA- to AA+	87,843	56,630	2,527,772	-	2,672,245
A- to A+	2,075	192,356	2,992,045	46,311	3,232,787
Lower than A-	151,174	113,206	707,579	-	971,959
Unrated	2,324,573	270,693	8,549,479	198,134	11,342,879
	2,565,665	**632,885**	**16,192,251**	**244,445**	**19,635,246**

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	19,331	131,810	1,287,777	24,027	1,462,945
Public sector enterprises	202,533	49,155	1,425,260	43,412	1,720,360
Private sector and others	2,343,801	451,920	13,479,214	177,006	16,451,941
	2,565,665	**632,885**	**16,192,251**	**244,445**	**19,635,246**

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

Collateral management:

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

Acceptable collateral includes deposit marked with lien, mortgage over land and property, movable assets including inventory, securities, investment grade bonds, gold and guarantees. The maximum lending value and the valuation frequencies are documented in the corporate credit policy.
Collaterals are revalued as a general rule as per the policy. However adhoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
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47 RISK MANAGEMENT (continued)

Collateral management: (continued)

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

Risk gross maximum exposure:

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

	2008 AED 000	2009 AED 000
Deposits with Central Bank	17,414,858	14,926,556
Due from banks	10,046,949	8,128,342
Loans and receivables	194,702,689	188,006,789
Islamic financing and investment products	19,911,611	20,923,373
Trading securities	611,093	244,445
Investment securities	16,152,520	19,390,801
Investments in associates and joint ventures	2,444,550	2,924,808
Positive fair value of derivatives	2,819,686	6,323,494
Customer acceptances	2,562,869	2,860,654
Total (A)	266,666,825	263,729,262
Contingent liabilities	48,567,754	71,587,210
Irrevocable loan commitments	10,092,483	24,126,946
Total (B)	58,660,237	95,714,156
Total credit risk exposure (A + B)	**325,327,062**	**359,443,418**

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

47 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 2009

			Of which past due but not impaired on thereporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Of which neither Impaired nor past due on reporting date* AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days 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	10,022,193	-	-	-	-	74,907	(1,004)	(49,147)	24,756
Loans and receivables:										
Corporate banking	170,944,509	169,340,260	291,578	184,613	88,454	328,427	1,822,253	(148,477)	(962,599)	711,177
Consumer banking	22,826,885	20,801,178	287,477	796,544	341,272	24,350	3,541,253	(855,844)	(2,109,345)	576,064
Others	931,295	815,577	-	-	-	-	789,222	-	(673,504)	115,718
Islamic financing	19,911,611	18,441,868	380,291	178,596	103,188	470,440	682,194	-	(344,966)	337,228
Trading and investment securities:										
Quoted - Government debt	2,768,417	2,768,417	-	-	-	-	-	-	-	-
Quoted - Other debt securities	5,818,583	5,805,032	-	-	-	-	45,362	-	(31,811)	13,551
Unquoted - Debt securities	2,494,039	2,486,126	-	-	-	-	11,019	-	(3,106)	7,913
Other securities	5,682,574	5,481,766	-	-	-	-	647,944	-	(447,136)	200,808

* Loans and receivables and Islamic financing include renegotiated loans amounting to AED 10,642.6 million and watch list loans amounting to AED 2,038.5 million.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

47 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS (continued):

31 December 2008

			Of which past due but not impaired on thereporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Of which neither Impaired nor past due on reporting date* AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	8,128,342	8,129,281	-	-	-	-	13,061	-	(14,000)	(939)
Loans and receivables:										
Corporate banking	161,157,992	158,816,750	1,424,471	313,229	189,439	306,891	748,990	(285,054)	(356,724)	107,212
Consumer banking	25,452,035	22,519,774	1,102,682	1,561,642	158,309	8,533	1,845,125	(539,997)	(1,204,033)	101,095
Others	1,396,762	1,061,671	-	-	-	-	1,315,931	-	(980,840)	335,091
Islamic financing	20,923,373	19,974,986	644,674	106,489	45,756	145,468	209,338	(2,018)	(201,320)	6,000
Trading and investment securities:										
Quoted - Government debt	1,362,870	1,362,870	-	-	-	-	-	-	-	-
Quoted - Other debt securities	9,250,734	9,233,870	-	-	-	-	56,001	-	(39,137)	16,864
Unquoted - Debt securities	2,201,787	2,201,787	-	-	-	-	-	-	-	-
Other securities	6,819,855	6,638,275	-	-	-	-	407,222	-	(225,642)	181,580

* Loans and receivables and Islamic financing include renegotiated loans amounting to AED 4,748.4 million and watch list loans amounting to AED 385.1 million.

47 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS (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 compliance with the revised terms for a period of twelve months from the date of restructuring. Renegotiated loans are secured by a combination of tangible security and corporate/ personal guarantees.

Watch list

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

Past due but not impaired

Exposures where contractual interest or principal payment are past due for more than 90 days but the Group believes, on individual assessment, that the impairment is not appropriate considering the borrower's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of the 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 due to one of the following conditions:

- A material credit obligation has been put on non-accrual status.
- Distressed restructuring of a credit obligation.
- Selling of a credit obligation at an economic loss.
- The Group or a third party has filed for the counterparty's bankruptcy.

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

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.

47 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS (continued):

Measurement of specific impairment

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

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

Measurement of collective impairment

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

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

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

Write offs

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

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

Market risk

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

47 RISK MANAGEMENT (continued)

Market risk (continued)

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

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

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

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

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

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

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

47 RISK MANAGEMENT (continued)

Market risk (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:

	31 December 2009		31 December 2008	
Currency	**Open position in currency 000**	**Open position in AED 000**	**Open position in currency 000**	**Open position in in AED 000**
CHF	7,903	28,173	730	2,516
EUR	19,371	102,458	(10,179)	(52,549)
GBP	10,599	63,197	(1,621)	(8,636)
KWD	1,391	17,819	4,456	59,751
OMR	(25,984)	(247,667)	2,040	19,531
QAR	533,724	538,026	246,162	248,558
SAR	(9,476,667)	(9,273,203)	(836,476)	(822,359)
USD	(3,294,357)	(12,098,527)	(5,227,854)	(19,208,432)
Others*	385,435	39,500	888,782	49,473
Total open position (AED 000)	**(20,830,224)**			**(19,712,147)**
Total open position limit (AED 000)	**34,220,711**			**42,025,173**
Limit utilization (in %)	**-60.87%**			**-46.91%**

*Others include minor exposures in various other currencies.

Trading book managed by market risk management

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

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

47 RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate derivatives exposure:

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

	In AED equivalent	
Transaction Currency	**2009**	**2008**
USD	39,260	87,677
AUD	-	3,128
AED	(101,370)	(83,200)
SAR	28,750	(21,884)
EUR	(1,860)	(18,845)
ZAR	10,810	3,227
Total	**(24,410)**	**(29,897)**

Market risk management function has implemented Reuters' KVaR+ system for Value-at-Risk (VaR) calculations, scenario building, and stress testing trading risk. The VaR is calculated according to 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 three different holding period assumptions, as shown in the following table:

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

47 RISK MANAGEMENT (continued)

Market risk (continued)

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

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

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

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

Operational risk

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

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

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

The Group has set-up the Group operational risk function within 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.

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

Liquidity risk

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

Liquidity risk management

Liquidity risk is managed in a conservative and forward looking manner, employing practices and processes for risk identification as part of the Group ALCO process and using a number of monitoring methodologies (cash flow mismatch/ liquidity gap, liquid asset cushion, funding capacity, funding diversification and deposit concentration).
An independent function within risk is responsible for liquidity measurement, monitoring and control and reports risk exposures directly to the Group ALCO.

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

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

47 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

Liquidity risk monitoring

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

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

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

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

Liquidity risk mitigation

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

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

47 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 2009

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	12,970,666	6,700,000	-	-	-	19,670,666
Due from banks	9,738,474	271,383	37,092	-	-	10,046,949
Loans and receivables	87,980,845	37,257,644	39,999,509	15,619,512	13,845,179	194,702,689
Islamic financing and investment products	5,359,462	2,035,851	4,763,157	3,174,348	4,578,793	19,911,611
Trading securities	119,106	24,028	282,348	154,065	31,546	611,093
Investment securities	5,808,676	820,939	3,915,653	2,439,737	3,167,515	16,152,520
Investments in associates and joint ventures	-	-	-	-	2,444,550	2,444,550
Positive fair value of derivatives	319,459	600,689	851,704	472,877	574,957	2,819,686
Investment properties	-	-	-	-	703,120	703,120
Property and equipment	669,601	22,863	68,197	1,393,285	1,151,660	3,305,606
Goodwill and Intangibles	23,465	70,395	173,686	123,000	5,654,925	6,045,471
Customer acceptances	2,469,664	-	-	-	93,205	2,562,869
Other assets	2,599,652	-	-	-	-	2,599,652
TOTAL ASSETS	**128,059,070**	**47,803,792**	**50,091,346**	**23,376,824**	**32,245,450**	**281,576,482**

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

47 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued):

31 December 2009

	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000	Total AED 000
LIABILITIES						
Due to banks	28,807,617	928,844	32,303	11,320	214,978	29,995,062
Customer deposits	114,519,456	31,691,422	192,260	53,410	11,519,993	157,976,541
Islamic customer deposits	10,305,695	7,437,435	4,886,401	556,319	-	23,185,850
Repurchase agreements with banks	3,615,441	-	-	-	-	3,615,441
Debt issued and other borrowed funds	3,487,478	3,752,253	11,849,458	1,272,152	3,710,831	24,072,172
Sukuk payable	-	-	1,267,185	-	-	1,267,185
Negative fair value of derivatives	339,925	334,997	691,658	511,826	545,818	2,424,224
Customer acceptances	2,469,664	-	-	-	93,205	2,562,869
Other liabilities	4,506,494	-	-	-	-	4,506,494
Total equity	-	-	-	4,000,000	27,970,644	31,970,644
TOTAL LIABILITIES AND EQUITY	**168,051,770**	**44,144,951**	**18,919,265**	**6,405,027**	**44,055,469**	**281,576,482**
OFF BALANCE SHEET						
Letters of Credit and Guarantees	11,779,357	14,484,451	21,048,501	8,957	22,067	47,343,333
31 December 2008						
ASSETS	**134,544,313**	**25,272,141**	**36,882,748**	**32,458,891**	**53,255,583**	**282,413,676**
LIABILITIES	**185,815,703**	**28,496,550**	**19,835,798**	**16,644,922**	**31,620,703**	**282,413,676**
OFF BALANCE SHEET ITEMS	**26,004,909**	**10,996,271**	**28,654,189**	**2,853,316**	**140,266**	**68,648,951**

Emirates NBD

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

47 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES:

The table below summarises 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 2009	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	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)**
As at 31 December 2008							
Financial liabilities							
Due to banks	48,425,638	(48,579,160)	(46,081,334)	(2,451,995)	(8,721)	(37,110)	-
Customer deposits	139,979,804	(142,315,267)	(112,919,048)	(16,418,520)	(9,266,782)	(3,619,407)	(91,510)
Islamic customer deposits	22,335,137	(22,341,362)	(9,790,115)	(5,345,665)	(5,429,245)	(1,648,767)	(127,570)
Repurchase agreements with banks	3,260,419	(3,275,519)	(2,146,753)	(1,125,015)	(3,751)	-	-
Debt issued and other borrowed funds	28,802,830	(31,288,639)	(2,988,968)	(3,152,010)	(9,843,576)	(9,302,979)	(6,001,106)
	242,803,828	**(247,799,947)**	**(173,926,218)**	**(28,493,205)**	**(24,552,075)**	**(14,608,263)**	**(6,220,186)**

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

47 RISK MANAGEMENT (continued)

Interest rate risk in the banking book

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

Group risk 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 also ensures that systems assumptions (used to transform positions into cash flows) are reasonable, properly documented, and stable over time. Material changes to assumptions are documented, justified, and approved by Group ALCO.

The primary techniques used for measuring the Group's interest rate risk exposure is through a 'Gap Analysis' with a repricing schedule that distributes interest-sensitive assets, liabilities, and off balance sheet positions into "time bands" according to their maturity (if fixed-rate) or time remaining to their next repricing (if floating rate). These schedules generate indicators of the interest rate risk sensitivity of both earnings and economic value to changing interest rates.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating 200 basis point parallel shifts to the yield curve(s), and corresponding and its impact on its net interest income. To measure and manage interest rate risk and its possible impact on economic value of the entity, the Group has established limits based on the PV 01 (Price Value of a Basis Point). In addition to repricing gap analysis, separate investment and funding strategies are prepared and tested against the PVO1 limits prior to execution, for restructuring the balance sheet. The interest rate gaps and sensitivity tests (NII and PVO1) 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 2009

47 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis:

31 December 2009:

	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
ASSETS							
Cash and deposits with Central Bank	-	-	1,400,000	5,300,000	-	12,970,666	19,670,666
Due from banks	6,014,971	109,590	7,239	264,144	37,092	3,613,913	10,046,949
Loans and receivables	105,306,377	53,572,829	16,561,271	3,161,178	15,741,431	359,603	194,702,689
Islamic financing and investment products	3,933,728	1,425,734	1,947,279	1,349,681	11,255,189	-	19,911,611
Trading securities	-	15,898	4,656	525	229,212	360,802	611,093
Investment securities	4,163,872	3,754,491	1,060,207	3,049,797	3,834,373	289,780	16,152,520
Investments in associates and joint ventures	-	-	-	-	-	2,444,550	2,444,550
Positive fair value of derivatives	-	-	-	-	-	2,819,686	2,819,686
Investment properties	-	-	-	-	-	703,120	703,120
Property and equipment	-	-	-	-	-	3,305,606	3,305,606
Goodwill and Intangibles	-	-	-	-	-	6,045,471	6,045,471
Customer acceptances	-	-	-	-	-	2,562,869	2,562,869
Other assets	-	-	-	-	-	2,599,652	2,599,652
TOTAL ASSETS	**119,418,948**	**58,878,542**	**20,980,652**	**13,125,325**	**31,097,297**	**38,075,718**	**281,576,482**

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

47 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis (continued):

31 December 2009:

	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	19,411,848	7,915,118	355,934	572,910	258,602	1,480,650	29,995,062
Customer deposits	50,971,052	30,329,131	15,165,391	16,526,031	11,765,662	33,219,274	157,976,541
Islamic customer deposits	1,851,309	9,830,747	3,493,516	3,381,450	463,150	4,165,678	23,185,850
Repurchase agreements with banks	3,615,441	-	-	-	-	-	3,615,441
Debt issued and other borrowed funds	11,606,068	12,409,584	56,520	-	-	-	24,072,172
Sukuk payable	-	-	1,267,185	-	-	-	1,267,185
Negative fair value of derivatives	-	-	-	-	-	2,424,224	2,424,224
Customer acceptances	-	-	-	-	-	2,562,869	2,562,869
Other liabilities	-	-	-	-	-	4,506,494	4,506,494
Total equity	-	-	-	-	4,000,000	27,970,644	31,970,644
TOTAL LIABILITIES AND EQUITY	**87,455,718**	**60,484,580**	**20,338,546**	**20,480,391**	**16,487,414**	**76,329,833**	**281,576,482**
ON BALANCE SHEET GAP	**31,963,230**	**(1,606,038)**	**642,106**	**(7,355,066)**	**14,609,883**	**(38,254,115)**	**-**
OFF BALANCE SHEET GAP	**(7,851,893)**	**(1,519,160)**	**(159,058)**	**551,010**	**8,979,101**	**-**	**-**
INTEREST RATE SENSITIVITY GAP – 2009	**24,111,337**	**(3,125,198)**	**483,048**	**(6,804,056)**	**23,588,984**	**(38,254,115)**	**-**
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2009	**24,111,337**	**20,986,139**	**21,469,187**	**14,665,131**	**38,254,115**	**-**	**-**
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2008	**28,929,486**	**20,374,100**	**18,585,506**	**15,248,042**	**35,567,915**	**-**	**-**

47 RISK MANAGEMENT (continued)

Repricing of assets and liabilities has been determined on the basis of contractual pricing or maturity dates, whichever dates are earlier.

The off balance sheet gap represents the net notional amounts of off balance sheet financial instruments such as interest rate swaps which are used to manage interest rate risk. Interest rate swaps that have been used for asset and liability management purposes to hedge overall exposure to interest rate risk are included separately as off balance sheet gaps. The allowance for impairment losses is deducted on a pro-rata basis over the various repricing profiles of loans and receivables.

The Group is presently running an interest rate risk in the banking book of less than 2% - 3% of total capital. The month over month limits are monitored against conservative PVO1 limits.

Modeled impact of interest rate shocks on the net interest income:

	As at 31 December 2009		As at 31 December 2008	
	Amount AED 000	Variance AED 000	Amount AED 000	Variance AED 000
Rates Up 200 bp	5,656,462	457,292	7,086,533	284,854
Base Case	5,199,170	-	6,801,679	-
Rates Down 200 bp	4,327,894	(871,276)	6,064,510	(737,169)

Reputation risk

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

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

Regulatory/compliance risk

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

This risk type is considered and managed as part of operational risk. However, the Group has an independent compliance function within Group Risk, 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 the Group'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 new economic capital framework, concentration risk will be considered implicitly. The Group intends to include single name as well as sector concentrations within the credit portfolio model. Therefore, this risk type will not be treated as a stand-alone risk and, hence, it is not quantified as a specific capital charge.

47 RISK MANAGEMENT (continued)

Capital management policies and stress testing

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

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

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

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

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

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

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

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

The Group continues to further refine the model parameterization and quantification approaches, and to further integrate the economic capital into the overall performance measurement and management framework.

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

Risk management at 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.

47 RISK MANAGEMENT (continued)

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

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.
- 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 periodic support from Group Operational Risk on policies and self assessment methodologies.
- Group liquidity risk policy adoption, in line with the Group ALCO defined framework.
- Compliance and AML Framework, in line with Group guidelines and policies.
- Basel II Compliance: Pillar 1 - Basis of establishing risk framework. Presently, EIB is 'standardized approach' compliant, and is working towards IRB methodology through the use of Credit Rating Models built at Group Risk.
- Inputs into Group Wide Internal Capital Adequacy Assessment Process (ICAAP): Pillar 2.
- Inputs into Group Wide Stress Testing.

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

- EIB Board Credit and Investment Committee (EIB BCIC): includes three senior executives of the Group, who are also directors on the EIB Board.
- EIB Asset Liability Management Committee (EIB ALCO): led by Group Risk. Members include two senior executives of Group 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.

48 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.