# Annual Report

# 2009

البـنــك الـعــربــي الـمــتــحــد

**UNITED ARAB BANK**

P.J.S.C.

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Annual Report

# 2009

# Branches

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Fax: 06-5684965

Corniche
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Tel: 06-5195111
Fax: 06-5549801

Al Wahda
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Fax: 06-5536747

## Abu Dhabi
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Fax: 02-6270766

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Website: www.uab.ae
Swift: UARBAEAA

## Al Ain
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Fax: 03-7665168

## Dubai
Deira
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Fax: 04- 2274309

Sh. Zayed Road
P.O. Box 34893, Dubai
Tel: 04- 3322032
Fax: 04- 3321332

Jebel Ali
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Tel: 04- 8816445
Fax: 04-8816845

## Ajman
P.O. Box 2700, Ajman
Tel: 06- 7465335
Fax: 06- 7465727

## Ras Al Khaimah
P.O. Box 615, Ras Al Khaimah
Tel: 07- 2279911
Fax: 07-2270969

# Contents

# Board of Directors

# &

# Principal Officers

# Board of Directors

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

# Board of Directors

Mr. Omar Hussain Al Fardan
Vice Chairman

Sheikh Sultan Bin Saqr Al Qassimi
Director

Sheikh Abdullah Bin Ali Bin Jabor Al Thani
Director

Mr. Ahmed Mohamad Hamad Al Midfa
Director

# Board of Directors

Mr. Andrew Stevens
Director

Mr. Mohamed Abdulbaki Mohamed
Director

Mr. Ahmed Mohamad Bakheet Khalfan
Director

Mr. Hugh Edward Thompson
Director

# Principal Officers

Paul Trowbridge
Chief Executive Officer

Awni Alami
Deputy Chief Executive Officer

Shahid Baloch
Executive Vice President
Group Head - Commercial Banking

Tom Smith
Executive Vice President
Group Head - Retail Banking

Ram Chandran
Executive Vice President
Chief Risk Officer

Abdel Hamid Ghazouani
Executive Vice President
Group Head - Operations, Organization & IT

Anthony Macrae
Executive Vice President
Group Head - Business Support

"Your reliable ally
for a prosperous future"

# Brief History

UNITED ARAB BANK P.J.S.C. (UAB) was incorporated in 1975 as a joint venture between diverse UAE investors and the French international financial conglomerate, Société Générale (SG). In February 2005, SG sold its 20% stake in UAB to its UAE shareholders in what was reported to be one of the largest UAE share deals concluded in recent years.

Based in Sharjah and operating with ten offices and branches throughout the UAE, the Bank offers clients tailor-made financial services in both corporate and retail banking, and has mainly established itself as a leading solutions provider for a growing commercial and industrial base across the seven emirates. Through the provision of a comprehensive range of Corporate Banking, Trade Finance and Treasury services, UAB is the Bank of choice among major corporate clientele segments in the UAE. With the launch of "Sadara" premium banking service, the Bank has grown its retail customer base, aiming to expand further with Islamic Banking planned for 2010.

UAB has formally concluded a strategic alliance with The Commercial Bank of Qatar (Cb). Described by investment analysts from around the region as a natural strategic fit, Cb made an acquisition of 40% interest in UAB in December 2007, in one of the few GCC cross border agreements between two national banks – the first between banks from Qatar and the UAE.

Cb had previously concluded a similar alliance with National Bank of Oman (NBO), setting the stage for strong growth by all three banks across the region.

In building an increasingly aligned structure, the Alliance of the three banks is actively focused on optimizing potential synergies, implementing industry best practice and developing shared services and product offerings.

# Management Review

## 1. Overview

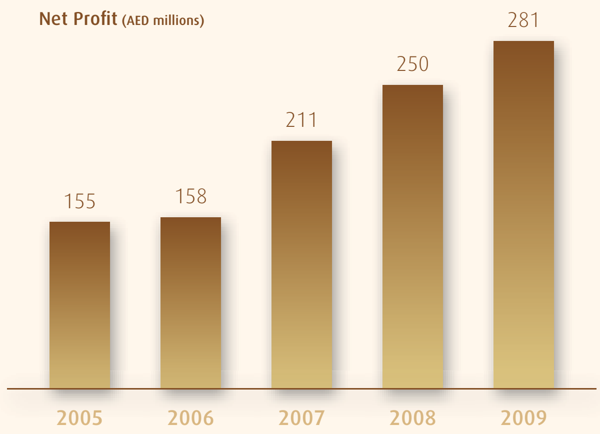
In a challenging financial environment and different market conditions, United Arab Bank maintained earnings growth and recorded net profit growth of 12% to AED 281 million for the year 2009, while preserving overall asset quality and expanding both branch network and product range. Key financial ratios have remained strong, with Capital Adequacy Ratio at 18.9% and a comfortable Advances to Stable Resources ratio of 83.8%, as at end of 2009.

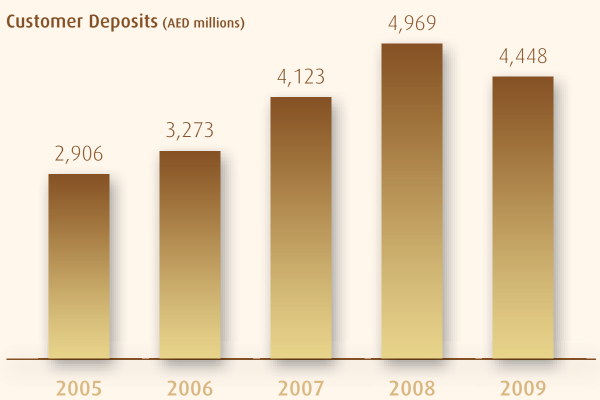
A combination of prudent policies, guidance from the experienced Board of Directors and adherence to core business and risk management principles has largely cushioned the Bank from the fallout of the financial crisis which has seriously impacted regional businesses and the banking industry. A business strategy based on long-term relationships and opportunities in our traditional core market sectors – namely Trade, Services and Manufacturing, to the exclusion of higher risk short-term opportunities in other sectors, has helped us forge enduring partnerships with our customers.

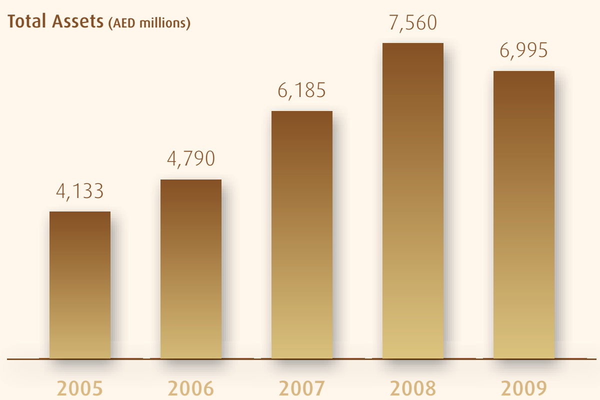
Alongside the successful results, the Bank has strengthened its corporate governance framework, organizational structure and senior management resources. With the support and product expertise of our 40% strategic shareholder, The Commercial Bank of Qatar (Cb), the Bank's services have been expanded with the launch of Islamic Banking Services and Sadara Wealth Management Program; risk controls and framework have been enhanced and several customer facing processes were re-engineered to enhance service quality and overall customer experience.

UAB recognizes the dynamic changes facing the banking industry and the importance of achieving critical mass, risk diversification, and economies of scale. The Bank will pursue sustainable growth in core business areas, with diversified corporate services and expansion in niche retail segments, Islamic financial services and wealth management, along with proactive management of risk, liquidity, and capital.

Our plan in 2010 is to significantly expand our physical network, delivering superior personalized services to ensure the highest level of customer experience at all likely customer touch points.



## 2.Corporate Banking Group

Despite the continuing unfavorable economic and business environment prevailing in the UAE during 2009, Corporate Banking Group demonstrated strong performance and remained the major contributor to the Bank's profitability. While continuing to support its valuable corporate and commercial customer relationships in an uncertain environment, the Bank maintained a cautious lending policy which lead to restrained and selective loan growth.

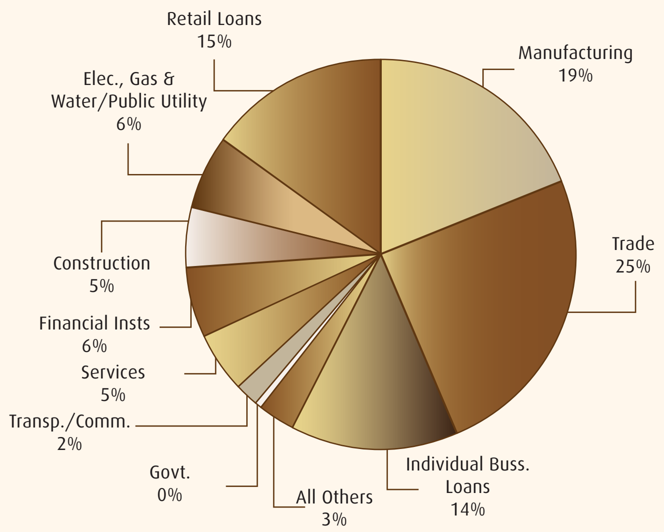
As a result, Corporate Banking assets reduced but the income impact of the decline in Loans & Advances was off-set by re-pricing of assets, the revision of fees and commissions, the automation of fee collection and concurrently significantly reducing the cost of funding.

Corporate strategy was re-aligned to maintain close contact with customers, diversification and reduction of risk concentrations, the close monitoring of delayed payments and a very selective approach to new credit exposures. Due to this emphasis on preserving asset quality, the commercial loans & advances portfolio continued to remain strong with a low level of delinquencies and loan loss provisions made during 2009.

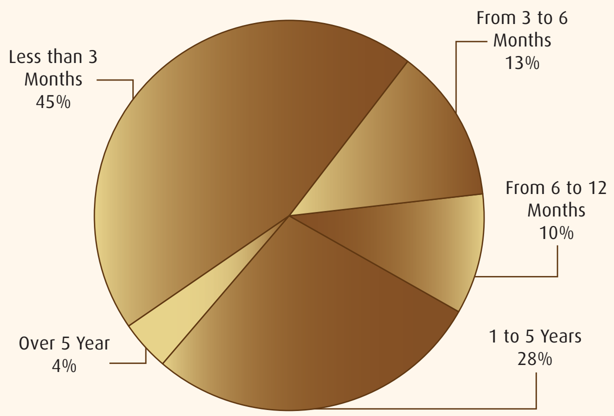
UAB's Loan Book is well diversified across economic sectors. A niche strength of the Bank is its traditional focus on relationships with diversified businesses in the UAE and in the trade services and manufacturing sectors. UAB has low exposure to impacted sectors such as real estate developers and retail credits. Cross-border loan exposures were also very small at 1.5 % of total loans, and the Bank has no defaults on this portfolio.

### Sector distribution of Loans & Advances

### AED 5 billion




### Maturity profile of Loans & Advances




The Bank maintained its customer-centric focus and made several technology and service improvements to satisfy the specific requirements of UAB's commercial customers. The addition of a Bulk Salary processing module to the "UAB Online" service to enable online processing of payrolls, thereby supporting our customers in meeting the regulations, related to the Wages Protection System (WPS) which was recently implemented by the Ministry of Labour. A workshop on Trade Finance was also conducted for UAB's major corporate customers with a remarkably positive response from all participants.

### 3. Retail Banking Group

2009 was a year of reorganization, restructuring and platform building, following the creation of a separate Retail Banking Group.

A new Retail Strategy was approved by the Board to better align customer needs with growing opportunities and challenges in the market, and identifying Mid-to-High income UAE Nationals and Expatriates as the key target customer segment. In July, a new Head of Retail Banking was appointed to ensure the successful implementation of this strategy.

Sadara Wealth Management services were introduced to provide High Net Worth customers with discreet personalized banking services including wealth management solutions developed for the special needs of premium customers. A successful soft launch in July achieved further recognition with UAB's Platinum Credit Card winning the 'Best Credit Card Design Award' from Visa International. The Sadara Wealth Management experience was enhanced with the opening of a dedicated Buhaira Corniche branch in Sharjah incorporating an exclusive Sadara Lounge and the appointment of wealth management professionals. The Bank's upgraded website – www.uab.ae – which has a strong Sadara focus, received an award from the Union of Arab Banks for the best Retail website in November 2009.

In the fourth Quarter, UAB launched an Islamic Banking Window "UAB Islamic Banking Services", and three Retail products have been initially offered – Current Account, General Investment Account and Goods Murabaha. UAB's Shariah Supervisory Board comprises the highly respected scholars Sheikh Abdul Aziz Al Khulaifi from Qatar, Dr. Mohammed Elgari from Saudi Arabia and Dr. Abdul Sattar Abu Ghuda from Syria, ensuring the integrity of its Islamic banking services to customers. UAB Islamic Banking is well positioned to capitalize on the diverse opportunities that the evolving Islamic finance sector offers.

A cohesive branch and ATM expansion strategy has been formulated to highlight gaps in the present network and to identify optimal new locations for UAB branches and ATM's (based on demographics of where "Mid-to-High Income UAE Nationals and Expatriates live and work"). Locations in Sharjah, Fujairah, RAK and Abu Dhabi have now been identified in line with these objective criteria. The entire ATM Network was replaced with state-of-the-art front-loading machines and concurrently all 40,000 ATM Cardholders were migrated from their old Cash Cards to new Chip Cards with POS (Point Of Sale) and enhanced security features. UAB customers can now pay for all their shopping, dining and travel needs, and enjoy cash withdrawal facilities at more than 900,000 ATM locations and 22 million retail outlets worldwide.

During 2009, UAB reduced its retail credit portfolio by 14.5% to AED 721 million, which is less than 15% of total loans and advances of the Bank. The impact of the economic slowdown, with resultant job losses, has been most pronounced in the retail credit sector, which has experienced unprecedented high levels of delinquencies and loan losses across UAE and other GCC countries. UAB's retail portfolio has also been impacted by higher levels of impaired loans and provisions but the impact has been less, cushioned by the Bank's prudent strategy of avoiding entry into residential mortgage finance products and selective extension of credit card facilities. The Retail Collections and Recovery Department has been strengthened and reorganized, with the implementation of a new Collection & Recovery system, the outsourcing of skip cases and recoveries to collection agencies and the recruitment of experienced retail recovery professionals.

## 4.Treasury and Capital Markets

UAB's Treasury services are primarily focused on management of liquidity and Foreign Exchange and Money Market products to its commercial and high net worth clients. The Bank also offers customized and hedging solutions like Currency Derivatives – including Forwards, Swap, FX Options and Interest Rates Derivatives, a selective range of investment products such as local and regional Fixed Income securities (Bonds/Sukuks), and other investments aligned to the specific investment needs and appetite of the client.

The department provides daily market commentary and FX views to over 200 clients. Treasury functions are fully integrated by a straight-through process system with its Middle and Back Office functions.

Despite the challenging market environment, Treasury Dept. had an exceptional year in 2009, and contributed approximately 30% of the net income of the Bank, with trading activities recording a 70% revenue growth over 2008. The efficient management of funding requirements, including liquidity risk and funding gaps, and diversification of funding sources were other achievements in 2009. UAB has maintained a high level of core customer deposits, with additional support from the 3-year special deposits from the Ministry of Finance, UAE. These have enabled UAB to improve net interest margin to 4.46% and maintain a comfortable Loans to Stable Resources ratio of 83.8%, which compare very positively with the averages for the UAE banking sector.

The Bank invests in liquid & marketable fixed income securities as part of its investment and liquidity management strategy. UAB's investment portfolio of AED 439 million is small and less than 10% of the total assets of the Bank. Investments are largely in UAE and GCC bonds/Sukuks, valuations of which have materially improved over the year despite the fall in regional debt market securities towards the end of 2009. UAB has no exposure to any structured products, CDOs/SIVs, sub-prime assets, or to bonds that may be restructured.

## 5. Risk Management

The economic and operating environment has materially changed over the past two years, in particular in the areas of credit and operating risks, regulatory compliance and technology. As a core principle of its strategy and growth plans, the Bank places priority attention to the development of a forward focused and robust enterprise-wide risk management framework to track and manage all the risks that its business units face.

Some of the major initiatives in 2009 were the establishment of the Board level Audit and Risk Committee to oversee various categories of risk and supplement the role of the Board Credit Committee, formation of a Risk Management Group, appointment of a Chief Risk Officer and the establishment of a dedicated ORM department and a Legal Department. The Risk Appetite and Credit Strategy papers were revised in consultation with Board Committees, risk concentration policies and asset diversification limits were tightened, and a formal Risk Charter is being developed. System enhancements include the Moody's Risk Analyst; a web based financial analysis and internal credit rating system, and a retail collections and recovery system. UAB also actively participates in new risk management initiatives at the industry level, and is a member of the CRO Forum set up by the Central Bank of the UAE.

UAB's risk management process and its comprehensive policies and procedures are designed to provide effective oversight, identification, measurement, accountability, mitigation and reporting of various types of risks, the allocation of adequate capital against those risks and a balanced risk-reward approach to relationships and business opportunities.

UAB continues to be well-positioned to manage the increased level and diversity of business risks in the local and regional markets. Section 22 of the Notes to the Financial Statements provide detailed information on the composition and quality of the Bank's risk asset portfolio, as well as on various key credit processes and the roles of the various risk-related committees.

## 5. Risk Management (continued)

### Risk Strategy, Governance and Guiding Principles

The Risk Management Group is headed by the Chief Risk Officer, who reports to the Chief Executive Officer. The Risk Group is comprised of the following specialist departments: Corporate Credit Risk, Retail Credit Risk, Corporate Recovery, Operational Risk, Credit Administration and Portfolio Management, and Legal Department.

The Risk strategy is set by the Board of Directors, which has the ultimate responsibility for the management of all risks assumed. The Board manages risk through frequent and regular meetings of the Credit Committee, and the Audit & Risk Committee. At management level, risks are managed through the Asset & Liability Committee and the Credit Committee, and an Audit & Risk Committee will also be functional this year. Risk appetite across all risks is recommended by the Credit and/or Executive Committee of the Board, and subsequently approved by the Board of Directors. The Commercial Bank of Qatar also provides support and guidance on risk management matters, under the terms of the Management Services Agreement between UAB and Cb.

The guiding principles that apply to all business activities are: Independence of risk management from the business groups; transparency of risk-related structures, policies and procedures; approval authorities aligned to level of experience & expertise of Managers; dual controls and accountability of business units for the risks and rewards from a transaction.

## 6. Operations & Information Technology

### Significant achievements during the year 2009 in Operations & Information Technology

United Arab Bank has focused and invested in Technology and an optimization and restructuring of Operations, and met with the current market requirements so as to facilitate more efficient services to its customers. Salient features of these achievements are highlighted herein:

Operations:  We have successfully centralized most of the processes at Head Office ensuring standardization, better controls, reduced Turnaround Time (TAT) and improved customer services with less resources.

The processes centralized include time deposit, bulk salary, fax indemnity, syndicated loans, stop payments, installment postponement, clearing, loan disbursement, account opening, collections and discounting.

On the other hand the; “Lean Transformation” program conducted during the year has contributed in achieving positive results from reducing the turn around time and the full time equivalents, improving customer experiences, eliminating waste and variability in the Bank’s processes as a whole, increasing productivity (including extended opening hours of branches and the introduction of alternate channels), enhancing workflows and ensuring cost reduction by right-sizing of the Operations staff requirements.

Information Technology (IT) and Project Management Office (PMO): a significant number of projects have been implemented during 2009 at a sustained pace to shape and enhance the support to Bank’s increased business.

The projects completed are the centralization and automation of  Inward /Outward Clearing using ICCS (Image Cheque Clearing System) application, the Wage Protection system, the SADARA program, the RightFax application, Sadara Platinum Credit Cards, the HRMS e-recruitment module, the Islamic Banking window, the new UAB corporate website, the new Card Management system (Power Card), the ATMs Replacement, the ATM Switch Application, the UAB Online Phase-II covering multiple transfers bulk transfers and file upload, the automation of cash deposit receipts, the Time & Attendance system, the Moody’s Rating system, the automation of revised schedule of charges for Retail and Corporate customers and the Collection and Recovery system.

## 6. Operations & Information Technology (continued)

This has resulted in a positive impact in terms of increased automation of processes, improved system capabilities and upgraded technology, cost effectiveness, support for additional products and new commercial features, increased facilities to customers and enhanced services.

UAB is currently performing in a Centralized operational and advanced information technology environment. UAB is also working towards a synergy among the other Alliance Group of Banks (Commercial Bank of Qatar and National Bank of Oman).

## 7. Human Resources

Human Resources at UAB is moving from being operationally reactive to being strategically proactive, moving from adding relatively less to adding relatively more to the Bank's competitive advantage.

UAB's Emiratization Program – Al Tamayouz – continues to be the key strategic initiative driven through the Human Resources Department, and continues to produce good results with the overall Emiratization percentage at 36% for 2009, up from 34% in the prior year. This initiative is successful because it focuses on 3 core elements i.e.:

- Career advancement – intensive program for high-potential UAE Nationals.
- Student sponsorship – leadership pipeline managed through sponsoring UAE Nationals from student to employee.
- Internship opportunities – program to provide mainly UAE Nationals from various universities and colleges with short work assignments, with the possibility of future employment.

The diversity of UAB's employees and the commitment of these employees to building a high-performing organization are a differentiating strength. This is evidenced by the fact that the Bank's profits grew by 12% with a concurrent 12% drop in headcount which now stands at 380.

Additionally, aligned to the Alliance 'Vision 2013', the following training was successfully executed in 2009 to support the high performing organization:

- Trade Finance Skills – Advanced and basic levels for all trade finance staff and operations managers, and a customer workshop for 80 UAB corporate customers.
- ORAP (Operational Risk Assessment Process) – Training awareness sessions on operational risk methodology underpinning key risk management objectives for the year, to formalize and strengthen risk framework in UAB and enhance the compliance function.
- Islamic Banking – enhance skills and capabilities of concerned staff in readiness to support UAB's business growth in this area.

The training calendar, based on needs analyzed through a rigorous training process and ratified by senior management, has yielded 3600 training man-hours of 14 in-house programs and 48 external behavioral and functional training and development programs.

UAB also contributes to the higher education sector in the UAE and supports student activities and projects by sponsoring a number of relevant events at reputable institutions such as HCT – Sharjah College, a member of the Higher Colleges of Technology 'HCT' Network in the UAE.

UAB actively participates in the Career Exhibitions organized on an annual basis in Sharjah under the auspices of the HRD Committee for the Banking and Financial Sector. The Bank also contributes to specialized career days and career panel discussions held at Zayed University & HCT Colleges promoting UAB as an employer of choice.

### 8. Premises

UAB's new Corniche Branch in Sharjah is its tenth operating branch and represents a major strategic focus on its target market comprising UAE Nationals and committed expatriates; a wider customer base of more affluent people. The new Branch offers a full range of consumer and business banking services, 24-hour ATM service and a dedicated Sadara Lounge to serve and manage all customer transactions and cater to their special financial needs and requirements in a most relaxed and pleasant environment with both efficiency and speed.

By opening this Branch and by launching Premium Banking Services, with additional branches and Islamic Banking planned in the upcoming months, UAB is strategically opting for sustainable and focused growth. UAB will thus take banking to the customer and establish a unique position as the bank of convenience.

In 2010 the Bank will witness the opening of four new branches: a branch in Ras Al Khaimah, one in Sharjah, one in Fujairah and a fourth one in Abu Dhabi. UAB will also be shifting the Jebel Ali branch to a new better location in the same area. The branch network will not only develop geographically but also qualitatively to reflect UAB's status as a long-standing venerable banking institution with a strong heritage and as a premium bank directed at premium customers.

### 9. Community Services

A staunch believer in giving back to the community, UAB has been supporting and recruiting citizens with special needs for the past six years through its association with Al Thiqah Club for the Handicapped.

Since the launch of Al Thiqah Program for employing and developing special-needs citizens in 2002, UAB has been the exclusive sponsor of all the Program Training sessions aimed at inducting and merging special-needs citizens in the local community by training and developing their interpersonal and professional skills, and by offering them social rehabilitation and employment opportunities at various administrative posts.

By this collaboration, UAB has been dynamically involved in the recruitment of special-needs persons, with six staff members being currently employed by the Bank within this category.

UAB's association with Al Thiqah has also been extended to other areas where the Bank sponsored various events and activities organized by the Club as part of its continued diligent efforts to make a difference and its renewed commitment to contribute to the development of the local community.

## 10. Acknowledgements

UAB gratefully acknowledges the loyalty, professionalism and commitment of our employees, who are the core of the foundation upon which our many years of profitable growth have been built. We also thank our Chairman, Deputy Chairman, and members of our Board of Directors for the guidance to the management of the Bank, and their invaluable contribution to the rapid growth of UAB into a respected regional banking group.

Our growth and achievements would not have been possible without the support, guidance and encouragement of the Central Bank of the UAE and the Ministry of Finance. The stability and diversity of the UAE banking and financial sector is supported by the quality of its regulatory framework and governance and demonstration of timely liquidity support in times of market stress, as well as a commitment to modern banking technology, transparency and enhanced risk-management standards.

UAB remains well-positioned for continued growth in this new decade.

**Paul Trowbridge**
Chief Executive Officer

# Directors' Report

Year ended 31 December 2009

On behalf of the Board of Directors, I am pleased to present the financial position of United Arab Bank P.J.S.C. for the year ended 31 December 2009. The financial statements have been prepared in compliance with the International Financial Reporting Standards.

The Bank's performance during the year under review has been most satisfactory, considering the general economic downturn and overall market conditions impacted by the Global Financial Crisis that started during the last quarter of 2008. Despite that, the Bank maintained its upward trend as evidenced by the increase in the profit for the year by 12.2%.

In this year of great challenge and the difficult environment of 2009, our Bank maintained its earnings momentum and recorded net profit growth of 12.2% to AED280.78 Million from AED250.2 Million in the previous year. Earnings per share improved to AED 0.28 for 2009 compared to AED 0.25 last year.

The Bank continues to adopt a cautious approach to business in the light of the challenging domestic and global economic environment. The Bank's focus on consolidating and maintaining high quality assets and improving quality of service continued. As a result, the volumes have moderated compared to the previous year. The Bank has also applied a prudent approach to new lending and focused on strong balance sheet management that has increased the net interest income by 17.4%.

The Capital Adequacy Ratio at end of the year was at a high level of 18.9% as against minimum requirement of 11%. Equally, the Liquidity Ratio was kept at a very comfortable level in order to meet any unexpected Customer needs. At the end of year, the Advances to Stable Resources ratio was at 83.8%.

We continued our policy of maximum coverage for loans and advances through an appropriate level of provisioning in order to ensure that all doubtful loans and advances are provided for that is comparable with the highest industry standards. Accordingly, net provisions made for Doubtful loans and advances in 2009 is AED 34.5 Million.

The proposed appropriations of profit for the year ended 31 December 2009, having regard to the regulatory authorities policies, are as follows:

| | AED'000 |
|---|---|
| Opening Balance in Retained Earnings | 1,473 |
| Transfer from Asset Revaluation Reserve | 1,178 |
| Net Profit for the year | 280,778 |
| Balance available for appropriation | **283,429** |
| | |
| Transfer to Special Reserve | 28,078 |
| Transfer to Statutory Reserve | 28,078 |
| Proposed Cash dividend - 15% of the Paid up Capital | 149,460 |
| Proposed Directors' remuneration | 1,500 |
| | |
| Closing Balance in Retained Earnings | 76,313 |
| | **283,429** |

After proposed appropriation of profit and subject to approval of the General Assembly, the total shareholders' funds will increase to AED 1.513 Billion at the end of December 2009 compared with AED1.341 Billion at year end 2008.

The Bank is committed and prepared for the implementation of Corporate Governance and Basel II. The Bank is in line with the time-table for the implementation of Corporate Governance Regulations in PJSC as recommended by Emirates Securities and Commodity Authority (ESCA). As regards Basel II, the Bank has implemented the requirements of the Basel Accord under the auspicious guidance of the Central Bank of U.A.E. covering the Credit, Market and Operational Risks for the Bank. UAB has also started complying with Pillar 2 requirements concerning the Supervisory Review of its activities, and has made disclosures under Pillar 3 of the Accord for the first time in this report, as required by the Central Bank of the UAE.

UAB became part of a GCC regional banking alliance in December 2007 upon the acquisition of a 40% interest in UAB by the Commercial Bank of Qatar (Cb), Qatar's largest private sector bank. With the Commercial Bank of Qatar concluding a similar alliance with National Bank of Oman (NBO) two years previously, all three banks are more strongly positioned for future growth and to leverage their individual skills and knowledge together.

The Bank is committed to providing continuing high quality service to its customers. To address customer needs and requirements, all Automated Teller Machines have been replaced with state-of-the-art technology. The Bank has also launched the 'Sadara' Wealth Management and Islamic Banking services during the last quarter of 2009 that will be fully functional from early 2010, supported by the expertise and systems provided by our strategic partner and major shareholder, the Commercial Bank of Qatar. The process of centralization continued and accordingly most of the Operational functions are being done from Head Office, the effect of which is enforced security, improvement in internal controls, efficient and professional services to Customers and most importantly cost effectiveness.

To enhance customer experience and convenience, a new Premium branch on Al Buhaira Corniche, Sharjah, is ready and will be operational in January 2010. Further, as part of network expansion, additional new Branches will be opened in the UAE during 2010, including our first Branch in the Emirate of Fujairah.

To focus on the Bank's image, the new 'Sadara' Platinum Credit Cards were issued to customers and the UAB website was redesigned to provide a modern new look. I am proud to say that due to the impressive and unique look, UAB received the "Best Credit Card Design" award from Visa International in London and the "Best Website" (Retail) award from the Banking Web Awards Committee and Union of Arab Banks.

UAB is effectively continuing its policy of recruiting and training UAE National staff with the primary aim of producing capable Bankers. In order to achieve this goal, the Bank has focused on participation in career fairs, representation at the Higher Colleges of Technology and in-house training activities with special emphasis on tailor-made programs for inducting and training new joiners. The percentage of UAE Nationals employed by UAB is 36% at the end of December 2009 as against 34% last year.

Finally, on behalf of the Board of Directors, I would like to express my thanks and appreciation for the concerted efforts of the Management and the dedicated Staff of United Arab Bank P.J.S.C. that have made this excellent performance possible. I encourage the team work to continue in the coming years for the development and prosperity of our Bank and its customers.

**Faisal Bin Sultan Bin Salem Al Qassimi**
Chairman
17 February 2010

# Independent Auditors' Report

To The Shareholders Of United Arab Bank Public Joint Stock Company

### Report on the Financial Statements

We have audited the accompanying financial statements of United Arab Bank P.J.S.C. ('the Bank'), which comprise the statement of financial position as at 31 December 2009 and the income statement, statement of comprehensive income and statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and applicable provisions of the articles of association of the Bank, 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 financial statements that are free from material misstatement, 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

### Opinion

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

As explained in note 27, on 17 February 2010 the Board of Directors revised their recommendation in respect of proposed dividend and, accordingly, withdrew the financial statements previously issued on 17 January 2010.

### 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 Federal Law No.8 of 1984 (as amended), Federal Law No.10 of 1980 and the articles of association of the Bank; proper books of account have been kept by the Bank and the contents of the Directors' report relating to these financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Ernst & Young

Signed by:
**Edward B. Quinlan**
Partner
Registration No. 93

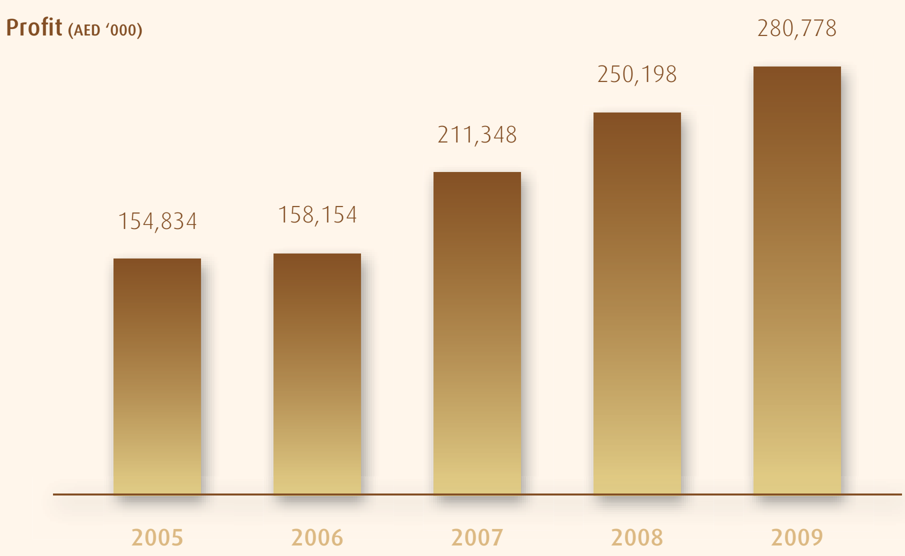
17 February 2010
Sharjah, United Arab Emirates

# Financial Statements

# Income Statement

Year ended 31 December 2009

| | Notes | 2009 AED'000 | 2008 AED'000 |
|---|---|---|---|
| Interest and similar income | 4 | **421,762** | 389,956 |
| Interest and similar expenses | 5 | **(97,300)** | (113,514) |
| **NET INTEREST INCOME** | | **324,462** | 276,442 |
| Net fees and commission income | | **67,271** | 66,927 |
| Net trading income (expense) | | **20** | (2,824) |
| Gains less losses arising from dealing in foreign currencies | | **38,230** | 41,226 |
| Net gain on sale of available for sale investments | | **-** | 6,487 |
| Other operating income | 6 | **40,605** | 30,910 |
| **TOTAL OPERATING INCOME** | | **470,588** | 419,168 |
| Provision for credit losses | 7 | **(34,496)** | (21,820) |
| **NET OPERATING INCOME** | | **436,092** | 397,348 |
| Personnel expenses | | **(117,093)** | (108,012) |
| Depreciation on property and equipment | 8 | **(6,207)** | (5,566) |
| Other operating expenses | | **(32,014)** | (33,572) |
| **TOTAL OPERATING EXPENSES** | | **(155,314)** | (147,150) |
| **PROFIT FOR THE YEAR** | | **280,778** | 250,198 |
| **BASIC AND DILUTED EARNINGS PER SHARE** | 9 | **AED 0.28** | AED 0.25 |




*The attached notes 1 to 27 form part of these financial statements.*

# Statement of Comprehensive Income

Year ended 31 December 2009

| | 2009<br>AED'000 | 2008<br>AED'000 |
|---|---|---|
| **Profit for the year** | **280,778** | 250,198 |
| **Other comprehensive income** | | |
| Net unrealised gain (loss) on available for sale investments | **42,540** | (105,386) |
| Realised gain on available for sale investments reclassified to income statement on disposal | **-** | (6,487) |
| Reversal of loss on redemption of available for sale investments | **1,134** | - |
| Net unrealised gain on cash flow hedges | **-** | 1,487 |
| Realised gain on cash flow hedges reclassified to income statement on disposal | **(1,487)** | (712) |
| **Total comprehensive income for the year** | **322,965** | **139,100** |

*The attached notes 1 to 27 form part of these financial statements.*

# Statement of Financial Position

At 31 December 2009

| | Notes | 2009 AED'000 | 2008 AED'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with UAE Central Bank | 10 | **358,774** | 387,507 |
| Due from banks | 11 | **1,331,453** | 988,289 |
| Loans and advances | 7 | **4,773,497** | 5,510,732 |
| Investments in debt securities | 12 | **438,866** | 495,366 |
| Other investments | 12 | **443** | 330 |
| Property and equipment | 8 | **62,935** | 46,613 |
| Other assets | 13 | **28,959** | 131,612 |
| **TOTAL ASSETS** | | **6,994,927** | 7,560,449 |
| **LIABILITIES AND SHAREHOLDERS' FUNDS** | | | |
| **LIABILITIES** | | | |
| Due to UAE Central Bank | 14 | **-** | 88,173 |
| Due to banks | | **748,830** | 1,012,292 |
| Customer deposits | 15 | **4,448,152** | 4,969,307 |
| Other liabilities | 16 | **135,175** | 149,372 |
| **TOTAL LIABILITIES** | | **5,332,157** | 6,219,144 |
| **SHAREHOLDERS' FUNDS** | | | |
| Share capital | 17 | **996,401** | 797,121 |
| Special reserve | 17 | **192,073** | 163,995 |
| Statutory reserve | 17 | **274,628** | 246,550 |
| Proposed scrip dividend | 17 | **-** | 199,280 |
| Proposed cash dividend | 17 | **149,460** | - |
| General reserve | 17 | **9,311** | 9,311 |
| Revaluation reserve | 17 | **24,025** | 25,203 |
| Retained earnings | | **76,313** | 1,473 |
| Cumulative changes in fair values | 18 | **(59,441)** | (101,628) |
| **TOTAL SHAREHOLDERS' FUNDS** | | **1,662,770** | 1,341,305 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS** | | **6,994,927** | **7,560,449** |

The financial statements were approved by the Board of Directors on 17 February 2010 and signed on its behalf by:

.........................................................................

Faisal Bin Sultan Bin Salem Al Qassimi
(Chairman)

.........................................................................

Paul Trowbridge
(Chief Executive Officer)

*The attached notes 1 to 27 form part of these financial statements.*

# Cash Flow Statement

Year ended 31 December 2009

| | Notes | 2009 AED'000 | 2008 AED'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **280,778** | 250,198 |
| Items not involving cash flow: | | | |
| Depreciation | 8 | **6,207** | 5,566 |
| Provision for credit losses | 7 | **34,496** | 21,820 |
| Items considered separately | | | |
| Net gain on sale of available for sale investments | | **-** | (6,487) |
| Gain on disposal of property and equipment | | **(167)** | - |
| Changes in operating assets and liabilities: | | | |
| Deposits with UAE Central Bank maturing after ninety days | | **-** | 35,000 |
| Loans and advances | | **702,739** | (1,588,745) |
| Other assets | | **101,166** | (63,083) |
| Due to banks maturing after ninety days | | **(417,488)** | 246,900 |
| Customer deposits | 15 | **(521,155)** | 846,553 |
| Other liabilities | 16 | **(14,197)** | 66,280 |
| Net cash from (used in) operating activities | | **172,379** | (185,998) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | 8 | **(22,562)** | (9,248) |
| Proceeds from disposal of property and equipment | | **200** | - |
| Purchase of non trading investments | | **(48,782)** | (386,020) |
| Redemption / sale of non trading investments | | **148,843** | 43,895 |
| Net cash from (used in) investing activities | | **77,699** | (351,373) |
| **FINANCING ACTIVITIES** | | | |
| Directors' remuneration | | **(1,500)** | (1,350) |
| Cash dividends paid | | **-** | (78,289) |
| Donation paid | | **-** | (1,000) |
| Net cash used in financing activities | | **(1,500)** | (80,639) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **248,578** | (618,010) |
| Cash and cash equivalents at 1 January | | **889,481** | 1,507,491 |
| **Cash And Cash Equivalents At 31 December** | | **1,138,059** | 889,481 |
| **CASH AND CASH EQUIVALENTS:** | | | |
| Cash and balances with UAE Central Bank | | **358,774** | 387,507 |
| Due to UAE Central Bank | | **-** | (88,173) |
| Due from banks maturing within ninety days | | **1,331,453** | 988,289 |
| Due to banks maturing within ninety days | | **(552,168)** | (398,142) |
| | | **1,138,059** | 889,481 |
| **Operational cash flows from interest and dividend** | | | |
| Interest paid | | **102,363** | 128,596 |
| Interest received | | **426,673** | 393,634 |

*The attached notes 1 to 27 form part of these financial statements.*

# Statement of Changes in Equity

Year ended 31 December 2009

| | Share capital AED'000 (Note 17a) | Special reserve AED'000 (Note 17b) | Statutory reserve AED'000 (Note 17c) | Proposed scrip dividend AED'000 (Notes 17d) | Proposed cash dividend AED'000 (Note 17d) | General reserve AED'000 (Note 17e) | Revaluation reserve AED'000 (Note 17f) | Retained earnings AED'000 | Cumulative changes in fair values AED'000 (Note 18) | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2009** | 797,121 | 163,995 | 246,550 | 199,280 | - | 9,311 | 25,203 | 1,473 | (101,628) | 1,341,305 |
| Profit for the year | - | - | - | - | - | - | - | 280,778 | - | 280,778 |
| Other comprehensive income for the year | - | - | - | - | - | - | - | - | 42,187 | 42,187 |
| Total comprehensive income for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **280,778** | **42,187** | **322,965** |
| Depreciation transfer for land and building | - | - | - | - | - | - | (1,178) | 1,178 | - | - |
| Scrip dividend | 199,280 | - | - | (199,280) | - | - | - | - | - | - |
| Directors' remuneration | - | - | - | - | - | - | - | (1,500) | - | (1,500) |
| Transfer to special reserve | - | 28,078 | - | - | - | - | - | (28,078) | - | - |
| Transfer to statutory reserve | - | - | 28,078 | - | - | - | - | (28,078) | - | - |
| Proposed cash dividend – 2009 (15%) | - | - | - | - | 149,460 | - | - | (149,460) | - | - |
| **At 31 December 2009** | **996,401** | **192,073** | **274,628** | **-** | **149,460** | **9,311** | **24,025** | **76,313** | **(59,441)** | **1,662,770** |

*The attached notes 1 to 27 form part of these financial statements.*

# Statement of Changes in Equity

Year ended 31 December 2009

| | Share capital AED'000 (Note 17a) | Special reserve AED'000 (Note 17b) | Statutory reserve AED'000 (Note 17c) | Proposed scrip dividend AED'000 (Notes 17d) | Proposed cash dividend AED'000 (Note 17d) | General reserve AED'000 (Note 17e) | Revaluation reserve AED'000 (Note 17f) | Retained earnings AED'000 | Cumulative changes in fair values AED'000 (Note 18 ) | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2008 | 711,715 | 138,975 | 221,530 | 85,406 | 78,289 | 10,311 | 26,381 | 767 | 9,470 | 1,282,844 |
| Profit for the year | - | - | - | - | - | - | - | 250,198 | - | 250,198 |
| Other comprehensive income for the year | - | - | - | - | - | - | - | - | (111,098) | (111,098) |
| Total comprehensive income for the year | - | - | - | - | - | - | - | 250,198 | (111,098) | 139,100 |
| Depreciation transfer for land and building | - | - | - | - | - | - | (1,178) | 1,178 | - | - |
| Scrip dividend | 85,406 | - | - | (85,406) | - | - | - | - | - | - |
| Cash dividend | - | - | - | - | (78,289) | - | - | - | - | (78,289) |
| Directors' remuneration | - | - | - | - | - | - | - | (1,350) | - | (1,350) |
| Transfer to special reserve | - | 25,020 | - | - | - | - | - | (25,020) | - | - |
| Transfer to statutory reserve | - | - | 25,020 | - | - | - | - | (25,020) | - | - |
| Proposed scrip dividend – 2008 (25%) | - | - | - | 199,280 | - | - | - | (199,280) | - | - |
| Donation paid | - | - | - | - | - | (1,000) | - | - | - | (1,000) |
| At 31 December 2008 | 797,121 | 163,995 | 246,550 | 199,280 | - | 9,311 | 25,203 | 1,473 | (101,628) | 1,341,305 |

*The attached notes 1 to 27 form part of these financial statements.*

## 1 INCORPORATION AND ACTIVITIES

United Arab Bank was incorporated as a public company with limited liability in the Emirate of Sharjah in 1975 by a decree of His Highness The Ruler of Sharjah and has been registered as a public joint stock company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries on the business of commercial banking through its ten offices and branches in the United Arab Emirates. During the year the Bank obtained an approval from the Central Bank of the UAE for operating an Islamic banking window. The operations are expected to commence in January 2010.

## 2 BASIS OF PREPARATION

### Accounting convention

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives financial instruments, investments other than held to maturity investments and land and buildings. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

### Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws.

### 2.1 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Bank has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010 (early adopted)
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 Presentation of Financial Statements effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009 (early adopted)
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- IFRIC 18 Transfers of Assets from Customers effective 1 July 2009 (early adopted) improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009, early adopted)

## 2 BASIS OF PREPARATION (continued)

### 2.1 Changes in accounting policy and disclosures (continued)

Where the adoption of the standard or interpretation is expected to have an impact on the financial statements or performance of the Bank, its impact is described below:

*IFRS 2 Share-based Payment (Revised)*
The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Bank adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Bank.

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for cash-settled share-based payment transactions. The Bank adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Bank.

*IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended).*
The Bank adopted the revised standard from 1 January 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) did not have an impact on the financial position or performance of the Bank as the Bank does not have any subsidiary.

*IFRS 7 Financial Instruments: Disclosures*
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 24. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 22.

*IFRS 8 Operating Segments*
IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Bank concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 23, including the related comparative information.

*IAS 1 Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank has elected to present two statements.

## 2 BASIS OF PREPARATION (continued)

### 2.1 Changes in accounting policy and disclosures (continued)

*IAS 23 Borrowing Costs*

A revised IAS 23 Borrowing Costs was issued in March 2007 and became effective for financial years beginning on or after 1 January 2009. The Standard has been revised to require capitalisation of borrowing costs when such costs relate to qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

*IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation.*

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Bank.

*IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Bank has concluded that the amendment will have no impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

*IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement*

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

#### Improvements to IFRSs

In May 2008 and April 2009 the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Bank.

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. This did not have any impact on the financial position or performance of the Bank.

*IFRS 8 Operating Segment Information:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

As the Bank's chief operating decision maker does review segment assets and liabilities, the Bank has continued to disclose this information in Note 23.

## 2 BASIS OF PREPARATION (continued)

### 2.1 Changes in accounting policy and disclosures (continued)

#### Improvements to IFRSs (continued)

*IAS 1 Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Bank analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.

*IAS 7 Statement of Cash Flows:* Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment did not have any impact in the statement of cash flows.

*IAS 16 Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell". The Bank amended its accounting policy accordingly, which did not result in any change in the financial position.

*IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Bank as no government assistance has been received by the Bank.

*IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Bank has amended its accounting policy accordingly which did not result in any change in its financial position.

*IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the financial statements of the Bank because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Bank as it does not have goodwill.

*IAS 38 Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Bank either has the right to access the goods or has received the service. This amendment had no impact on the financial position of the Bank because it does not enter into such promotional activities.

## 2 BASIS OF PREPARATION (continued)

### 2.1 Changes in accounting policy and disclosures (continued)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRS 2 Share-based Payment
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 19 Employee Benefits
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 31 Interest in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 40 Investment Properties
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

### 2.2 Significant management judgements and estimates

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgement and estimates are as follows:

*Classification of investments*

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular that the Bank has the intention and ability to hold these to maturity.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

All other investments are classified as available for sale.

*Going concern*

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

*Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more details in Note 24.

## 2 BASIS OF PREPARATION (continued)

### 2.2 Significant management judgements and estimates (continued)

*Impairment of investments*
The Bank treats held to maturity and available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that the loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The determination of what is "significant" or "prolonged" requires considerable judgment. The Bank evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

*Impairment losses on loans and advances*
The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether a provision for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratio etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 7 and Note 22.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

**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 exactly 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 Bank 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management advisory fees.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

When the Bank enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

### Cash and cash equivalents
Cash and cash equivalents comprise balances with maturities of three months or less from the date of acquisition including cash and balances with Central Bank, deposits with banks and other financial institutions.

### Due from banks
After initial measurement, amounts due from banks are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

### Loans and advances
Loans and advances are stated at amortised cost net of interest suspended, provisions for impairment and any amounts written off. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest and similar income in the income statement and the losses arising on impairment of such loans and advances are recognised in the income statement in the provision for credit losses.

### Trading investments
These are initially recognised at fair value. Gains and losses arising from changes in fair values are included in the income statement for the year. Interest and dividends received are included in other income according to the terms of the contract or when the right to the payment has been established.

### Non – trading investments
Non – trading investments are classified as follows:
- Held to maturity
- Available for sale

All non-trading investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

*Held to maturity*
Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "interest and similar income" in the income statement. The losses arising from impairment of such investments are recognised in the income statement.

*Available for sale*
Available for sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit and loss, held to maturity or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Non – trading investments (continued)

*Available for sale (continued)*

After initial recognition, these are subsequently measured at fair value. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investment.' That portion of any fair value changes relating to an effective hedging relationship is recognised directly in the income statement. Fair value changes, which are not part of an effective hedging relationship, are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity is included in the income statement for the period.

### Derecognition of financial assets and financial liabilities

*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when;

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards for the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant models.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Determination of fair value (continued)

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market date are not available. The fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices, to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models.

#### Property and equipment

Property and equipment are stated at cost or valuation excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

Revaluation of land and building is carried out on an open market basis for existing use. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings. Fair value is determined from market based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are made with regularity to ensure that their carrying value does not differ materially from their fair value at the statement of financial position date.

Depreciation is calculated on a straight line basis over the estimated useful lives of other property and equipment as follows:

| | |
|---|---|
| Buildings | over 20 years |
| Motor vehicles | over 3 years |
| Furniture, fixtures and equipment | over 3 to 8 years |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

#### Deposits

All money market and customer deposits are carried at cost less amounts repaid. An adjustment is made to these, if part of an effective fair value hedging strategy, to adjust the value of the deposit for the fair value being hedged with the resultant changes being recognised in the income statement.

#### Employees' end of service benefits

With respect to its national employees, the Bank makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employees' end of service benefits (continued)

The Bank provides end of service benefits to its other expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

### Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and able to be reliably measured.

### Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Provision for credit losses'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

### Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

### Derivatives

The Bank enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in the foreign exchange, interest rate and capital markets. These are stated at fair value. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position.

Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income in the income statement.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in other operating income along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in a separate component of equity, and the ineffective portion recognised in the income statement. The gains or losses on cash flow hedges recognised initially in equity are transferred to the income statement in the period in which the hedged transaction impacts the income. Where the hedged transaction results in the recognition of an asset or a liability the associated gain or loss that had been initially recognised in equity is included in the initial measurement of the cost of the related asset or liability.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivatives (continued)

Changes in fair value of derivatives or non-derivatives that are designated and qualify, as net investment hedges and that prove to be highly effective in relation to the hedged risk are accounted for in a way similar to cash flow hedges.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance:

- in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the income statement over the remaining term to maturity.
- in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. When such transaction occurs the gain or loss retained in equity is recognised in the income statement or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Certain derivative transactions, while providing effective economic hedges under the Bank's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income.

Derivatives embedded in other financial instruments 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 the income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

### Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the income statement.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In addition to the provision for impaired loans and advances, which are assessed for impairment specifically, collective provisions are made to cover impairment against specific groups of assets where there is a measurable decrease in estimated future cash flows.

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on present value of estimated future cash flows discounted at the original effective interest rate;
(b) for assets carried at fair value, impairment is the difference between cost and fair value; and
(c) for assets carried at cost, impairment is based on the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment and uncollectibility of financial assets (continued)

*Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

### Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

### Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

### Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

### Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

### Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at middle market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the income statement.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## 4 INTEREST AND SIMILAR INCOME

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Interest on loans and advances to customers | **387,199** | 329,395 |
| Interest on money market and inter bank transactions | **12,644** | 39,599 |
| Interest on investments | **21,919** | 20,547 |
| Others | **-** | 415 |
| | **421,762** | 389,956 |

## 5 INTEREST AND SIMILAR EXPENSES

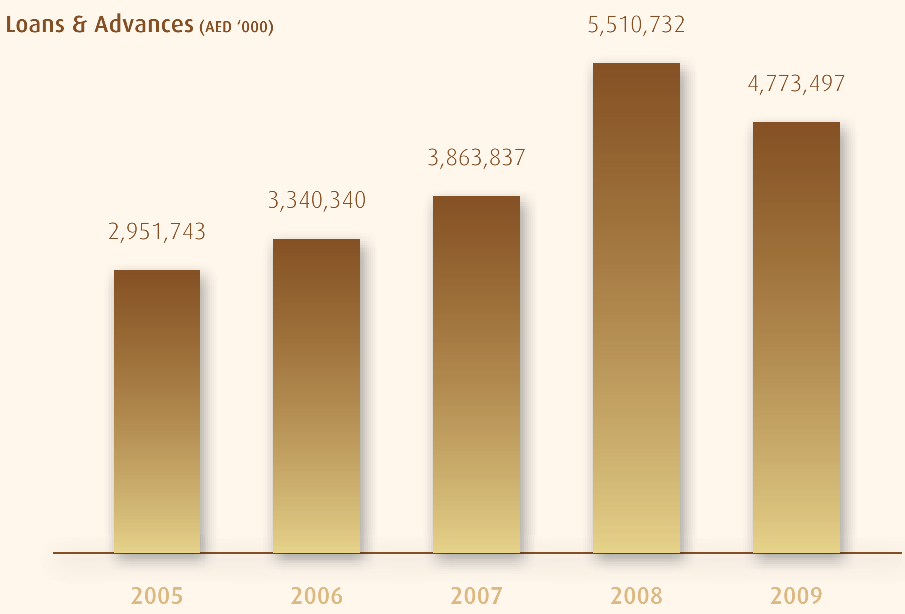
| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Interest and expenses on inter bank transactions | **10,350** | 33,458 |
| Interest on customer deposits | **86,950** | 80,056 |
| | **97,300** | 113,514 |

## 6 OTHER OPERATING INCOME

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Charges recovered from customers | **19,983** | 17,203 |
| Other banking income | **9,292** | 8,907 |
| Income from custodial and brokerage services | **4,376** | - |
| Income from collections | **3,155** | 4,138 |
| Others | **3,799** | 662 |
| | **40,605** | 30,910 |

## 7 LOANS AND ADVANCES

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| The composition of the loans and advances portfolio is as follows: | | |
| **(a) By type:** | | |
| Overdrafts | **1,024,931** | 1,077,703 |
| Loans (medium and short term) | **2,705,282** | 2,980,487 |
| Loans against trust receipts | **775,273** | 1,159,104 |
| Bills discounted | **199,116** | 188,563 |
| Other cash advances | **185,490** | 170,920 |
| Bills drawn under letters of credit | **29,900** | 67,319 |
| Gross amount of loans and advances | **4,919,992** | 5,644,096 |
| Less: Provision for impairment on loans and advances | **(133,572)** | (117,602) |
| Interest in suspense | **(12,923)** | (15,762) |
| Net loans and advances | **4,773,497** | 5,510,732 |
| **(b) By economic sector** | | |
| Government and public sector | **249,134** | 347,795 |
| Trade | **1,118,258** | 1,192,084 |
| Personal loans (retail and business) | **1,400,209** | 1,508,831 |
| Manufacturing | **1,154,377** | 1,523,364 |
| Construction | **424,294** | 378,430 |
| Services | **50,910** | 203,946 |
| Financial institutions | **454,268** | 396,230 |
| Transport and communication | **66,837** | 75,538 |
| Agriculture | **1,674** | 17,571 |
| Others | **31** | 307 |
| | **4,919,992** | 5,644,096 |
| **(c) By classification** | | |
| Corporate | **4,181,993** | 4,765,974 |
| Retail | **737,999** | 878,122 |
| | **4,919,992** | 5,644,096 |



## 7 LOANS AND ADVANCES (continued)

Loans and advances are stated net of interest in suspense and provision for impairment of loans and advances. The movements for interest in suspense and provisions are as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Interest in suspense | Impairment provisions | Interest in suspense | Impairment provisions |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Balance at 1 January | **15,762** | **117,602** | 15,484 | 109,131 |
| Suspended/ provided during the year | **4,761** | **40,656** | 4,416 | 26,787 |
| Released during the year | **-** | **(6,160)** | (415) | (4,967) |
| | **4,761** | **34,496** | 4,001 | 21,820 |
| Amounts written off during the year | **(7,600)** | **(18,526)** | (3,723) | (13,349) |
| Balance at 31 December | **12,923** | **133,572** | 15,762 | 117,602 |

At 31 December 2009, gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance and on which interest is not being accrued or where interest is suspended amounted to AED 144,951,000 (2008: AED 91,370,000).

The fair value of collateral that the Bank holds relating to loans to corporate customers individually determined to be impaired at 31 December 2009 amounts to AED 41,000,000 (2008: Nil). The collateral consists of cash, securities, letters of guarantee and properties. Loans to retail customers are secured to the extent of approximately 15% (2008: 25%) through the assignment of their end of service benefits.

### Collateral repossessed

During the year, the Bank had no material collateral repossessed.

## 8 PROPERTY AND EQUIPMENT

| | Freehold land and buildings | Motor vehicles, furniture, fixtures and equipment | Capital work-in- progress | Total |
|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Cost or valuation: | | | | |
| **At 1 January 2009** | **32,194** | **41,319** | **4,926** | **78,439** |
| Additions | **-** | **10,890** | **11,672** | **22,562** |
| Disposals | **-** | **(1,793)** | **-** | **(1,793)** |
| At 31 December 2009 | **32,194** | **50,416** | **16,598** | **99,208** |
| Depreciation: | | | | |
| At 1 January 2009 | **1,767** | **30,059** | **-** | **31,826** |
| Charge for the year | **1,178** | **5,029** | **-** | **6,207** |
| Relating to disposals | **-** | **(1,760)** | **-** | **(1,760)** |
| At 31 December 2009 | **2,945** | **33,328** | **-** | **36,273** |
| Net carrying value: | | | | |
| At 31 December 2009 | **29,249** | **17,088** | **16,598** | **62,935** |

## 8 PROPERTY AND EQUIPMENT (continued)

| | Freehold land and buildings | Motor vehicles, furniture, fixtures and equipment | Capital work-in- progress | Total |
|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Cost or valuation: | | | | |
| At 1 January 2008 | 32,194 | 38,586 | 958 | 71,738 |
| Additions | - | 5,280 | 3,968 | 9,248 |
| Disposals | - | (2,547) | - | (2,547) |
| At 31 December 2008 | 32,194 | 41,319 | 4,926 | 78,439 |
| Depreciation: | | | | |
| At 1 January 2008 | 589 | 28,218 | - | 28,807 |
| Charge for the year | 1,178 | 4,388 | - | 5,566 |
| Relating to disposals | - | (2,547) | - | (2,547) |
| At 31 December 2008 | 1,767 | 30,059 | - | 31,826 |
| Net carrying value: | | | | |
| At 31 December 2008 | 30,427 | 11,260 | 4,926 | 46,613 |

The cost of freehold land included above is AED 5,224,000 (2008: AED 5,224,000).

### Revaluation of freehold land and building

The Bank engaged M/s Continental Real Estate Property Consultants, an independent valuer, to determine the fair value of the land and building. Fair value is determined by reference to open market values on an existing use basis. The date of revaluation was 16 June 2007.

If the freehold land and building were measured using the cost model, the net carrying amount at 31 December 2009 would be AED 5,224,000 (2008: AED 5,224,000).

## 9 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year by the number of shares outstanding during the year as follows:

| | **2009** | 2008 |
|---|---|---|
| Profit for the year net of directors' remuneration of AED 1,500,000 (2008: AED 1,350,000) | **279,278,000** | 248,848,000 |
| Number of shares of AED 1 each outstanding during the year | **996,401,000** | 996,401,000 |
| Basic and diluted earnings per share | **AED 0.28** | AED 0.25 |

The earnings per share of AED 0.31 as reported for 2008 has been adjusted for the effect of the shares issued in 2009 as a result of the scrip dividend.

The figures for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

## 10 CASH AND BALANCES WITH UAE CENTRAL BANK

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Cash on hand | **39,814** | 38,729 |
| Balances with UAE Central Bank: | | |
| Clearing accounts | **6,777** | 3,765 |
| Reserve requirements | **312,183** | 320,013 |
| Certificates of deposit (Note 14) | **-** | 25,000 |
| | **358,774** | 387,507 |

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

## 11 DUE FROM BANKS

Due from banks include AED 672,761,000 (2008: AED 643,612,000) placed with foreign banks outside the UAE.

## 12 INVESTMENTS

| | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Quoted AED'000** | **Unquoted AED'000** | **Total AED'000** | Quoted AED'000 | Unquoted AED'000 | Total AED'000 |
| **Debt:** | | | | | | |
| Held to maturity | | | | | | |
| Local | **-** | **-** | **-** | 36,729 | - | 36,729 |
| Overseas | **-** | **-** | **-** | - | - | - |
| | **-** | **-** | **-** | 36,729 | - | 36,729 |
| Available for sale | | | | | | |
| Local | **329,941** | **-** | **329,941** | 291,201 | 25,000 | 316,201 |
| Overseas | **33,925** | **75,000** | **108,925** | 67,436 | 75,000 | 142,436 |
| | **363,866** | **75,000** | **438,866** | 358,637 | 100,000 | 458,637 |
| **Total debt securities** | **363,866** | **75,000** | **438,866** | 395,366 | 100,000 | 495,366 |
| **Equity:** | | | | | | |
| Available for sale | | | | | | |
| Local | **-** | **-** | **-** | - | - | - |
| Overseas | **367** | **76** | **443** | 254 | 76 | 330 |
| **Total equities** | **367** | **76** | **443** | 254 | 76 | 330 |
| **Total investments** | **364,233** | **75,076** | **439,309** | 395,620 | 100,076 | 495,696 |

## 13 OTHER ASSETS

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Interest receivable | **10,022** | 14,933 |
| Positive fair value of derivatives (Note 20) | **969** | 7,251 |
| Cheques awaiting clearance | **162** | 77,793 |
| Prepayments and other assets | **17,806** | 31,635 |
| | **28,959** | 131,612 |

## 14 DUE TO UAE CENTRAL BANK

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Overdraft account | - | 63,173 |
| Fixed term borrowing against certificate of deposit | - | 25,000 |
| | - | 88,173 |

The overdraft amount carried interest at 300 basis points over the applicable rates on certificates of deposit whilst the fixed term borrowing attracted interest at 150 basis points.

## 15 CUSTOMER DEPOSITS

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Term and call deposits | **2,194,559** | 3,097,921 |
| Current accounts | **2,172,603** | 1,816,038 |
| Saving accounts | **80,990** | 55,348 |
| | **4,448,152** | 4,969,307 |

Deposits include AED 352,818 thousand (31 December 2008: AED 352,818 thousand) received from the Ministry of Finance, United Arab Emirates, in the last quarter of 2008. This amount is available for a period of 3 to 5 years, subject to certain conditions to be adhered to during the tenure of the deposits and is repayable in lump sum on maturity. The deposits carry interest at 120 basis points above the US Treasury 5 year notes or 4%, whichever is higher, payable on a quarterly basis.

## 16 OTHER LIABILITIES

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Interest payable | **12,680** | 17,743 |
| Staff related provisions | **43,952** | 43,603 |
| Negative fair values of derivatives (Note 20) | **2,047** | 10,466 |
| Others | **76,496** | 77,560 |
| | **135,175** | 149,372 |

## 16 OTHER LIABILITIES (continued)

### Staff related provisions

The aggregate employee entitlement liability comprises:

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Employees' end of service benefits | **32,703** | 32,644 |
| Other liabilities | **11,249** | 10,959 |
| | **43,952** | 43,603 |

In accordance with UAE labour law the Bank provides for an end of service benefit for its expatriate employees. Movements in the liability recognised in the balance sheet in respect of end of service benefits are as follows:

| | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Liability as at 1 January | **32,644** | 25,111 |
| Expense recognised in the income statement | **5,650** | 8,435 |
| End of service benefits paid | **(5,591)** | (902) |
| Liability as at 31 December | **32,703** | 32,644 |

## 17 SHARE CAPITAL AND RESERVES

### a) Share capital

The authorised, issued and fully paid share capital of the Bank comprises 996,401,000 (2008: 797,121,000) shares of AED 1 each.

At an Extraordinary General Assembly held on 15 April 2009, the Bank's shareholders approved an increase in the issued share capital of the Bank to AED 996,401,000 by means of a scrip dividend of 199,280,000 shares of AED 1 each.

### b) Special reserve

Article 82 of Union Law No. 10 of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital.

### c) Statutory reserve

Article 192 of the UAE Commercial Companies Law No.(8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

### d) Dividends

The directors have proposed a cash dividend amounting to AED 149,460,000 at AED 0.15 per share of AED 1 each (2008: scrip dividend of AED 199,280,000 at AED 0.25 per share of AED 1 each). This is subject to the approval of the shareholders at the Annual General Assembly to be held on 17 February 2010.

### e) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Bank at an ordinary general meeting, on the recommendation of the Board of Directors.

### f) Revaluation reserve

The revaluation reserve is used to record increases in the fair value of freehold land and building and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

## 18 CUMULATIVE CHANGES IN FAIR VALUES

| | Available for sale investments and securities AED'000 | Cash flow hedges AED'000 | Total AED'000 |
|---|---|---|---|
| **At 1 January 2009** | **(103,115)** | **1,487** | **(101,628)** |
| Net unrealised gain on available for sale investments | **42,540** | **-** | **42,540** |
| Reversal of loss on redemption of available for sale investments | **1,134** | **-** | **1,134** |
| Realised gain on cash flow hedges reclassified to income statement on disposal | **-** | **(1,487)** | **(1,487)** |
| **At 31 December 2009** | **(59,441)** | **-** | **(59,441)** |

| | Available for sale investments and securities AED'000 | Cash flow hedges AED'000 | Total AED'000 |
|---|---|---|---|
| At 1 January 2008 | 8,758 | 712 | 9,470 |
| Net unrealised loss on available for sale investments | (105,386) | - | (105,386) |
| Realised gain on available for sale investments reclassified to income statement on disposal | (6,487) | - | (6,487) |
| Net unrealised gains on cash flow hedges | - | 1,487 | 1,487 |
| Realised gain on cash flow hedges reclassified to income statement on disposal | - | (712) | (712) |
| At 31 December 2008 | (103,115) | 1,487 | (101,628) |

## 19 RELATED PARTY TRANSACTIONS

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, and all Directors of the Bank and companies in which such shareholders and Directors have a significant interest and key management personnel. All the loans and advances to related parties are performing advances and are free of any provision for possible loan losses. The significant balances outstanding at 31 December and transactions during the year with related parties were as follows:

| Shareholders, directors, their related entities and key management personnel | 2009 AED'000 | 2008 AED'000 |
|---|---|---|
| Due from banks | **249,955** | 146,900 |
| Due to banks | **183,625** | 147,193 |
| Loans and advances | **53,129** | 195,488 |
| Customer deposits | **395,032** | 782,435 |
| Commitments and contingencies | **209,313** | 236,713 |
| Accrued interest income | **259** | 408 |
| Accrued interest expense | **-** | 510 |

### 19 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the financial statements are as follows:

| Shareholders, directors, their related entities and key management personnel | **2009** | 2008 |
|---|---|---|
| | **AED'000** | AED'000 |
| Interest income | **9,128** | 143,137 |
| Interest expense | **13,667** | 56,381 |
| Management fees | **1,502** | 2,046 |
| Directors' remuneration | **1,500** | 1,350 |

Compensation of key management personnel is as follows:

| | **2009** | 2008 |
|---|---|---|
| | **AED'000** | AED'000 |
| Salaries and other benefits | **12,780** | 10,617 |

| | **2009** | 2008 |
|---|---|---|
| Number of key management personnel | **16** | 15 |

The Bank has leased office space in various premises owned by a related party. The property rental and associated expenses for the year amounted to AED 2,045,000 (2008: AED 1,951,000). The property rentals are negotiated each year at market rates.

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2009, the Bank has not recorded any impairment of amounts owed by related parties (2008: Nil).

### 20 DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. 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 the year end and are neither indicative of the market risk nor credit risk.

## 20 DERIVATIVES (continued)

**At 31 December 2009**

| | Positive fair value AED'000 | Negative fair value AED'000 | Notional amount AED'000 | Notional amounts by term to maturity: Within 3 months AED'000 | 3-12 months AED'000 | 1-5 years AED'000 |
|---|---|---|---|---|---|---|
| Derivatives held for trading: | | | | | | |
| Forward foreign exchange contracts | 9 | 14 | 589,620 | 588,289 | 1,331 | - |
| Foreign currency options | 960 | 960 | 574,169 | 481,316 | 92,853 | - |
| Interest rate swaps | - | 1,073 | 18,365 | - | - | 18,365 |
| | **969** | **2,047** | **1,182,154** | **1,069,605** | **94,184** | **18,365** |

At 31 December 2008

| | Positive fair value AED'000 | Negative fair value AED'000 | Notional amount AED'000 | Notional amounts by term to maturity: Within 3 months AED'000 | 3-12 months AED'000 | 1-5 years AED'000 |
|---|---|---|---|---|---|---|
| Derivatives held for trading: | | | | | | |
| Forward foreign exchange contracts | 660 | 684 | 422,048 | 133,077 | 288,971 | - |
| Foreign currency options | 5,104 | 5,104 | 799,689 | 762,935 | 36,754 | - |
| Derivatives held as cash flow hedges: | | | | | | |
| Interest rate swaps | 1,487 | 4,678 | 146,900 | - | 36,725 | 110,175 |
| | 7,251 | 10,466 | 1,368,637 | 896,012 | 362,450 | 110,175 |

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Bank's best estimate of the most appropriate model inputs (Note 24).

Cash flow hedges are used to hedge the exposure to variability in cash flows arising from interest rate fluctuations in loans and advances and available for sale debt securities. In 2008, a loss of AED 4,678,000 was recognised in the income statement due to hedge ineffectiveness.

## 20 DERIVATIVES (continued)

### Derivative product types

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

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.

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

### 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 favourable to the Bank. Approximately 72% (2008: 54%) of the Bank's derivative contracts are entered into with other financial institutions and less than 28% (2008: 46%) of the fair value of favourable contracts is with any individual counterparty at the balance sheet date.

### Purpose of derivatives

In the normal course of meeting the needs of the Bank's customers, the Bank is party to forward foreign exchange and option contracts, interest rate swaps and forward rate agreements. In addition, as part of its asset and liability management, the Bank uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

The Bank uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate loans. In 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.

Since strategic hedging does not qualify for special hedge accounting, forward foreign exchange and option contracts are accounted for as trading instruments.

## 21 CONTINGENT LIABILITIES AND COMMITMENTS

### Credit related commitments

The Bank's contractual amounts in respect of letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash requirements.

## 21 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The Bank has the following credit related commitments:

| | **2009** | 2008 |
|---|---|---|
| | **AED'000** | AED'000 |
| Contingent liabilities | | |
| Letters of credit | **471,588** | 686,333 |
| Guarantees and acceptances | **3,308,799** | 3,349,642 |
| | **3,780,387** | 4,035,975 |
| Commitments | | |
| Undrawn loan commitments | **2,583,761** | 2,526,638 |

## 22 RISK MANAGEMENT

### Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

Risk Management covers all risks including credit, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organization, roles and responsibilities of Board level and management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

### Risk management structure

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

### Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of portfolio, and complying with Credit Policy and regulatory guidelines.

### Board Audit and Risk Committee

The Board Audit and Risk Committee (BARC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, and policies for enhancement of the bank's risk management framework to best practices standards, including effective internal control structures, monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc), ensuring independency of Internal Audit function, and compliance with regulatory requirements.

## 22 RISK MANAGEMENT (continued)

### The Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safe-guarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolio to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BARC.

### Risk Controlling Unit

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

### Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

### Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Chairman.

### Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Chief Executive Officer and all other relevant members of management of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

### Risk Mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks.

## 22 RISK MANAGEMENT (continued)

### Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

### CREDIT RISK

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

### Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

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

| | Notes | **Gross maximum exposure 2009 AED'000** | Gross maximum exposure 2008 AED'000 |
|---|---|---|---|
| Cash and balances with UAE Central Bank (excluding cash on hand) | 10 | **318,960** | 348,778 |
| Due from banks | 11 | **1,331,453** | 988,289 |
| Loans and advances | 7 | **4,773,497** | 5,510,732 |
| Investments | 12 | **439,309** | 495,696 |
| Other assets | 13 | **18,570** | 122,691 |
| Total | | **6,881,789** | 7,466,186 |
| | | | |
| Letters of credit | 21 | **471,588** | 686,333 |
| Guarantees and acceptances | 21 | **3,308,799** | 3,349,642 |
| Undrawn loans commitments | 21 | **2,583,761** | 2,526,638 |
| Total | | **6,364,148** | 6,562,613 |
| | | | |
| **Total credit risk exposure** | | **13,245,937** | 14,028,799 |

## 22 RISK MANAGEMENT (continued)

### CREDIT RISK (continued)

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is discussed below.

### Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2009 was AED 161,500,000 (2008: AED 205,000,000) before taking account of collateral or other credit enhancements and AED 161,500,000 (2008: AED 205,000,000) net of such protection.

The Bank's maximum exposure to credit risk, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Assets AED'000** | **Contingent liabilities and commitments AED'000** | Assets AED'000 | Contingent liabilities and commitments AED'000 |
| United Arab Emirates | **6,033,048** | **6,118,043** | 6,560,673 | 6,307,121 |
| Other Middle East countries | **615,093** | **34,776** | 667,678 | 28,759 |
| Europe | **199,598** | **149,770** | 199,223 | 170,513 |
| USA | **13,709** | **1,229** | 17,801 | 1,229 |
| Rest of the world | **20,341** | **60,330** | 20,811 | 54,991 |
| Total | **6,881,789** | **6,364,148** | 7,466,186 | 6,562,613 |

An industry sector analysis of the Bank's on-balance sheet financial assets (excluding cash on hand), before taking into account collateral held or other credit enhancements, is as follows:

| | **Gross maximum exposure 2009 AED'000** | Gross maximum exposure 2008 AED'000 |
|---|---|---|
| Financial services | **2,126,856** | 1,843,831 |
| Other services | **50,910** | 402,060 |
| Manufacturing | **1,154,377** | 1,523,364 |
| Construction | **444,194** | 389,816 |
| Trade | **1,118,258** | 1,192,084 |
| Government and public sector | **496,292** | 523,995 |
| Other | **1,637,397** | 1,724,400 |
| | **7,028,284** | 7,599,550 |
| Less: Impairment provision on loans and advances | **(146,495)** | (133,364) |
| | **6,881,789** | 7,466,186 |

## 22 RISK MANAGEMENT (continued)

### CREDIT RISK (continued)

### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory and trade receivables.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its periodic review of credit facilities and of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

### Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of assets for certain key balance sheet lines, based on the Bank's credit rating system.

| | **Neither past due nor impaired** | | | | |
|---|---|---|---|---|---|
| | **High grade 2009 AED'000** | **Standard grade 2009 AED'000** | **Sub- Standard grade 2009 AED'000** | **Past due or individually impaired 2009 AED'000** | **Total 2009 AED'000** |
| Due from banks | **814,525** | **516,928** | **-** | **-** | **1,331,453** |
| Investments | **48,977** | **390,332** | **-** | **-** | **439,309** |
| Loans and advances (Gross) | **1,687,048** | **2,834,959** | **107,325** | **290,660** | **4,919,992** |
| | **2,550,550** | **3,742,219** | **107,325** | **290,660** | **6,690,754** |

| | Neither past due nor impaired | | | | |
|---|---|---|---|---|---|
| | High grade 2008 AED'000 | Standard grade 2008 AED'000 | Sub-Standard grade 2008 AED'000 | Past due or individually impaired 2008 AED'000 | Total 2008 AED'000 |
| Due from banks | 864,646 | 123,643 | - | - | 988,289 |
| Investments | 336,098 | 159,598 | - | - | 495,696 |
| Loans and advances (Gross) | 1,742,032 | 2,911,858 | 755,146 | 235,060 | 5,644,096 |
| | 2,942,776 | 3,195,099 | 755,146 | 235,060 | 7,128,081 |

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired.

## 22 RISK MANAGEMENT (continued)

### CREDIT RISK (continued)

### Credit risk exposure of the Bank's on balance sheet financial assets for each internal risk rating

| | Moody's equivalent grades | **Historical default rates 2009** | Historical default rates 2008 | **Total 2009 AED'000** | Total 2008 AED'000 |
|---|---|---|---|---|---|
| High grade | | | | | |
| Risk rating class 1 | Aaa | **-** | - | **1,249,189** | 1,604,284 |
| Risk rating class 2 | Aa1-A3 | **0.25%** | 0.25% | **1,614,376** | 1,678,719 |
| Standard grade | | | | | |
| Risk rating class 3 | Ba1 | **0.50%** | 0.50% | **2,368,346** | 2,285,416 |
| Risk rating class 4 | Ba2-Ba3 | **1.25%** | 1.25% | **1,544,097** | 1,054,508 |
| Sub Standard grade | | | | | |
| Risk rating class 0 | B3 | **1.75%** | 1.75% | **-** | 819,930 |
| Risk rating class 5 | Caa-C | **3.00%** | 3.00% | **107,325** | 65,323 |
| Impaired | | | | | |
| Risk rating class 6,7 & 8 | D | **93.25%** | 93.25% | **144,951** | 91,370 |
| | | | | **7,028,284** | 7,599,550 |
| Less: Impairment provision and interest in suspense on loans and advances | | | | **(146,495)** | (133,364) |
| | | | | **6,881,789** | 7,466,186 |

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics (including Moody's Risk Analyst, a web based financial analysis and internal credit rating system), combined with processed market information to provide the main inputs for the measurement and management of counterparty risk. All internal risk ratings are tailored to the various categories and reviewed periodically in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's ratings and equivalent grades are relevant only for certain of the exposures in each risk rating class.

## 22 RISK MANAGEMENT (continued)

### CREDIT RISK (continued)

**Aging analysis of past due but not impaired loans per class of on balance sheet financial assets**

| | **Less than 30 days 2009 AED'000** | **30 to 60 days 2009 AED'000** | **61 to 90 days 2009 AED'000** | **More than 90 Days 2009 AED'000** | **Total 2009 AED'000** |
|---|---|---|---|---|---|
| Loans and advances | **91,026** | **15,370** | **9,191** | **30,122** | **145,709** |

| | Less than 30 days 2008 AED'000 | 30 to 60 days 2008 AED'000 | 61 to 90 days 2008 AED'000 | More than 90 Days 2008 AED'000 | Total 2008 AED'000 |
|---|---|---|---|---|---|
| Loans and advances | 109,871 | 20,294 | - | 13,525 | 143,690 |

The fair value of the collateral that the Bank held at 31 December 2009 for past due but not impaired loans and advances to customers covers approximately 28% (2008: 30%) of the outstanding balance.

**Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated**

| | **2009 AED'000** | 2008 AED'000 |
|---|---|---|
| Loans and advances | **137,196** | 76,019 |

### LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of UAE equal to 14% on current deposits and 1% on time deposits. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month. The ratios as at the year end were as follows:

| | **2009** | 2008 |
|---|---|---|
| Advances to Stable Resources Ratio | **83.8%** | 88.8% |
| Net Liquid Assets to Customer Deposits Ratio | **30.9%** | 15.4% |
| Capital Adequacy Ratio | **18.9%** | 12.9% |

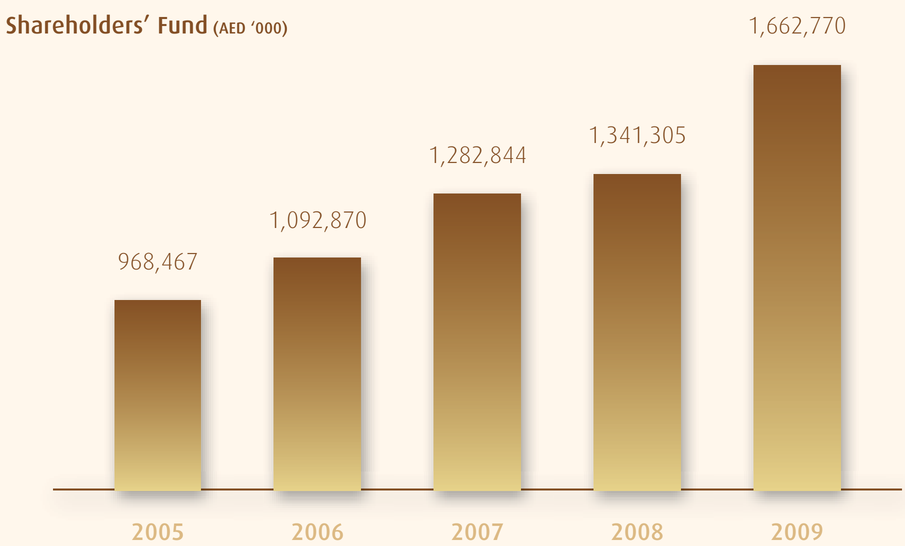
## 22 RISK MANAGEMENT (continued)

### LIQUIDITY RISK (continued)

The Bank stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance lending to customers. They are monitored using the advances to stable deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding.

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds, as at 31 December 2009 is as follows:

| | Less than 3 months | From 3 months to 6 months | From 6 months to 12 months | Sub total less than 12 months | 1-5 years | Over 5 years | Sub total over 12 months | Undated | Total |
|---|---|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **ASSETS** | | | | | | | | | |
| Cash and balances with UAE Central Bank | 358,774 | - | - | 358,774 | - | - | - | - | 358,774 |
| Due from banks | 1,331,453 | - | - | 1,331,453 | - | - | - | - | 1,331,453 |
| Loans and advances | 2,160,688 | 663,279 | 497,498 | 3,321,465 | 1,400,514 | 198,013 | 1,598,527 | - | 4,919,992 |
| Investments | - | - | 18,317 | 18,317 | 420,549 | - | 420,549 | 443 | 439,309 |
| Property and equipment | - | - | - | - | - | - | - | 62,935 | 62,935 |
| Other assets | 28,959 | - | - | 28,959 | - | - | - | - | 28,959 |
| Provision for impairment of loans and advances and interest in suspense | (146,495) | - | - | (146,495) | - | - | - | - | (146,495) |
| **Sub total** | **3,733,379** | **663,279** | **515,815** | **4,912,473** | **1,821,063** | **198,013** | **2,019,076** | **63,378** | **6,994,927** |
| **LIABILITIES AND SHAREHOLDERS' FUNDS** | | | | | | | | | |
| Due to banks | 552,168 | 13,036 | 183,626 | 748,830 | - | - | - | - | 748,830 |
| Customer deposits | 3,424,782 | 189,597 | 194,660 | 3,809,039 | 639,113 | - | 639,113 | - | 4,448,152 |
| Other liabilities | 102,472 | - | - | 102,472 | - | - | - | 32,703 | 135,175 |
| Shareholders' funds | - | - | - | - | - | - | - | 1,662,770 | 1,662,770 |
| **Sub total** | **4,079,422** | **202,633** | **378,286** | **4,660,341** | **639,113** | **-** | **639,113** | **1,695,473** | **6,994,927** |
| **Net liquidity gap** | **(346,043)** | **460,646** | **137,529** | **252,132** | **1,181,950** | **198,013** | **1,379,963** | **(1,632,095)** | **-** |



## 22 RISK MANAGEMENT (continued)

### LIQUIDITY RISK (continued)

The maturity profile of assets and liabilities at 31 December 2008 was as follows:

| | Less than 3 months | From 3 months to 6 months | From 6 months to 12 months | Sub total less than 12 months | 1-5 years | Over 5 years | Sub total over 12 months | Undated | Total |
|---|---|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| ASSETS | | | | | | | | | |
| Cash and balances with UAE Central Bank | 387,507 | - | - | 387,507 | - | - | - | - | 387,507 |
| Due from banks | 988,289 | - | - | 988,289 | - | - | - | - | 988,289 |
| Loans and advances | 2,698,857 | 706,381 | 415,410 | 3,820,648 | 1,695,901 | 127,547 | 1,823,448 | - | 5,644,096 |
| Investments | 61,354 | 35,994 | - | 97,348 | 398,018 | - | 398,018 | 330 | 495,696 |
| Property and equipment | - | - | - | - | - | - | - | 46,613 | 46,613 |
| Other assets | 131,612 | - | - | 131,612 | - | - | - | - | 131,612 |
| Provision for impairment of loans and advances and interest in suspense | (133,364) | - | - | (133,364) | - | - | - | - | (133,364) |
| Sub total | 4,134,255 | 742,375 | 415,410 | 5,292,040 | 2,093,919 | 127,547 | 2,221,466 | 46,943 | 7,560,449 |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | | | | | | | |
| Due to UAE Central Bank | 88,173 | - | - | 88,173 | - | - | - | - | 88,173 |
| Due to banks | 398,142 | - | 246,900 | 645,042 | 367,250 | - | 367,250 | - | 1,012,292 |
| Customer deposits | 4,046,346 | 169,775 | 304,294 | 4,520,415 | 448,892 | - | 448,892 | - | 4,969,307 |
| Other liabilities | 116,728 | - | - | 116,728 | - | - | - | 32,644 | 149,372 |
| Shareholders' funds | - | - | - | - | - | - | - | 1,341,305 | 1,341,305 |
| Sub total | 4,649,389 | 169,775 | 551,194 | 5,370,358 | 816,142 | - | 816,142 | 1,373,949 | 7,560,449 |
| Net liquidity gap | (515,134) | 572,600 | (135,784) | (78,318) | 1,277,777 | 127,547 | 1,405,324 | (1,327,006) | - |

## 22 RISK MANAGEMENT (continued)

### LIQUIDITY RISK (continued)

### Analysis of financial liabilities by remaining contractual maturities

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

**Financial liabilities**

| 31 December 2009 | On demand AED'000 | Less than 3 months AED'000 | 3 to 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| Due to banks | 22,762 | 530,729 | 199,120 | - | - | 752,611 |
| Customer deposits | 2,253,593 | 1,172,864 | 386,486 | 671,068 | - | 4,484,011 |
| Other liabilities | 88,754 | 13,718 | 32,703 | - | - | 135,175 |
| Financial derivatives | - | 13 | 58 | 1,544 | - | 1,615 |
| **Total undiscounted financial liabilities** | 2,365,109 | 1,717,324 | 618,367 | 672,612 | - | 5,373,412 |

| 31 December 2008 | On demand AED'000 | Less than 3 months AED'000 | 3 to 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| Due to UAE Central Bank | 63,173 | 25,003 | - | - | - | 88,176 |
| Due to banks | 26,354 | 372,110 | 250,673 | 380,344 | - | 1,029,481 |
| Customer deposits | 1,943,150 | 2,111,514 | 483,444 | 491,501 | - | 5,029,609 |
| Other liabilities | 105,769 | 10,959 | 32,644 | - | - | 149,372 |
| Financial derivatives | - | 1,419 | 983 | 4,172 | - | 6,574 |
| Total undiscounted financial liabilities | 2,138,446 | 2,521,005 | 767,744 | 876,017 | - | 6,303,212 |

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

| 31 December 2009 | On demand AED'000 | Less than 3 months AED'000 | 3 to 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| Inflows | - | - | - | - | - | - |
| Outflows | - | (13) | (58) | (1,544) | - | (1,615) |
| **Net** | - | (13) | (58) | (1,544) | - | (1,615) |
| **Discounted at applicable interbank rates** | - | (13) | (58) | (1,391) | - | (1,462) |

## 22 RISK MANAGEMENT (continued)

### LIQUIDITY RISK (continued)

| 31 December 2008 | On demand AED'000 | Less than 3 months AED'000 | 3 to 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| Inflows | - | 498 | 2,428 | 506 | - | 3,432 |
| Outflows | - | (1,419) | (983) | (4,172) | - | (6,574) |
| Net | - | (921) | 1,445 | (3,666) | - | (3,142) |
| Discounted at applicable interbank rates | - | (915) | 1,435 | (3,467) | - | (2,947) |

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments:

| **2009** | **On demand AED'000** | **Less than 3 months AED'000** | **3 to 12 months AED'000** | **1 to 5 years AED'000** | **Over 5 years AED'000** | **Total AED'000** |
|---|---|---|---|---|---|---|
| Contingent liabilities | **-** | **2,599,919** | **991,460** | **189,008** | **-** | **3,780,387** |
| Commitments | **2,583,761** | **-** | **-** | **-** | **-** | **2,583,761** |
| **Total** | **2,583,761** | **2,599,919** | **991,460** | **189,008** | **-** | **6,364,148** |
| 2008 | | | | | | |
| Contingent liabilities | - | 2,256,679 | 1,375,872 | 403,424 | - | 4,035,975 |
| Commitments | 2,526,638 | - | - | - | - | 2,526,638 |
| Total | 2,526,638 | 2,256,679 | 1,375,872 | 403,424 | - | 6,562,613 |

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

### MARKET RISK

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Asset and Liability Committee (ALCO).

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement. There is no material impact on the Bank's equity.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2009, including the effect of hedging instruments.

## 22 RISK MANAGEMENT (continued)

### MARKET RISK (continued)

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Currency | Change in basis points | Sensitivity of net interest income AED'000 | Change in basis points | Sensitivity of net interest income AED'000 |
| USD | +25 | 8,950 | +25 | 3,844 |
| USD | -25 | (8,950) | -25 | (3,844) |

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading financial assets and financial liabilities denominated in other currencies.

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2009 on its non trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the income statement (due to the fair value of currency sensitive non trading monetary assets and liabilities) and equity (due to change in the fair value of currency swaps used as cash flow hedges). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

| Currency | Change in currency rate in % 2009 | Effect on profit 2009 AED'000 | Change in currency rate in % 2008 | Effect on profit 2008 AED'000 |
|---|---|---|---|---|
| Euro | +10 | 5 | +10 | 11 |
| GBP | +10 | (13) | +10 | 4 |

As the UAE Dirham is currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

### Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2009) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

| | Change in equity price 2009 % | Effect on equity 2009 AED'000 | Change in equity price 2008 % | Effect on equity 2008 AED'000 |
|---|---|---|---|---|
| All investments | - | - | +10 | 176 |

## 22 RISK MANAGEMENT (continued)

### OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## 23 SEGMENTAL ANALYSIS

### Primary segment information

For management purposes the Bank is organised into three major business segments:

**Retail banking** -principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities;

**Corporate banking** -principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;

**Treasury** -principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of placements with and acceptances from other banks, through treasury and wholesale banking.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

Segmental information for the year ended 31 December 2009 was as follows:

| | Retail banking AED'000 | Corporate banking AED'000 | Treasury AED'000 | Total AED'000 |
|---|---|---|---|---|
| Interest and other income | 67,160 | 380,578 | 120,150 | 567,888 |
| Profit for the year | 30,171 | 170,971 | 79,636 | 280,778 |
| Segment assets | 725,454 | 4,110,910 | 2,158,563 | 6,994,927 |
| Segment liabilities | 957,959 | 3,603,776 | 770,422 | 5,332,157 |
| Other segment information | | | | |
| Capital expenditure | | | | |
| Property and equipment | 2,340 | 13,260 | 6,962 | 22,562 |
| Depreciation | 644 | 3,648 | 1,915 | 6,207 |
| Impairment losses on loans and advances | 27,153 | 7,343 | - | 34,496 |

## 23 SEGMENTAL ANALYSIS (continued)

### Primary segment information (continued)

Segmental information for the year ended 31 December 2008 was as follows:

| | Retail banking AED'000 | Corporate banking AED'000 | Treasury AED'000 | Total AED'000 |
|---|---|---|---|---|
| Interest and other income | 72,201 | 392,465 | 68,016 | 532,682 |
| Profit for the year | 31,140 | 169,268 | 49,790 | 250,198 |
| Segment assets | 877,133 | 4,764,009 | 1,919,307 | 7,560,449 |
| Segment liabilities | 1,048,755 | 4,042,842 | 1,127,547 | 6,219,144 |
| Other segment information | | | | |
| Capital expenditure | | | | |
| Property and equipment | 1,073 | 5,831 | 2,344 | 9,248 |
| Depreciation | 668 | 3,173 | 1,725 | 5,566 |
| Impairment losses on loans and advances | 13,953 | 7,867 | - | 21,820 |

### Secondary segment information

The Bank operates in only one geographic area, the United Arab Emirates. Accordingly, no further geographical analysis of operating income, profit and net assets is given.

## 24 FAIR VALUES OF FINANCIAL INSTRUMENTS

### A. Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## 24 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

### A. Determination of fair value and fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| **31 December 2009** | | | | |
| **Financial assets** | | | | |
| Derivative financial instruments | | | | |
| Forward foreign exchange contracts | - | 9 | - | 9 |
| Currency options | - | 960 | - | 960 |
| | - | 969 | - | 969 |
| Financial investments available for-sale | | | | |
| Quoted investments | | | | |
| Government debt securities | 208,409 | - | - | 208,409 |
| Other debt securities | 112,640 | 42,817 | - | 155,457 |
| Equities | 367 | - | - | 367 |
| Unquoted investments | | | | |
| Other debt securities | - | - | 75,000 | 75,000 |
| Equities | - | - | 76 | 76 |
| | 321,416 | 42,817 | 75,076 | 439,309 |
| | 321,416 | 43,786 | 75,076 | 440,278 |

**Financial liabilities**

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| Derivative financial instruments | | | | |
| Interest rate swaps | - | 1,073 | - | 1,073 |
| Forward foreign exchange contracts | - | 14 | - | 14 |
| Currency options | - | 960 | - | 960 |
| | - | 2,047 | - | 2,047 |

### Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

*Derivatives*

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swpas, currency options and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

## 24 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

### A. Determination of fair value and fair value hierarchy (continued)

*Financial investments – available-for-sale*

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

**Movements in level 3 financial instruments measured at fair value**

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

| 31 December 2009 | At 1 January 2009 AED'000 | Total gain or loss recorded in profit and loss AED'000 | Purchase AED'000 | Sales AED'000 | Total gain or loss recorded in equity AED'000 | Transfer to level 2 AED'000 | At 31 December 2009 AED'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Financial investments available for-sale: | | | | | | | |
| Unquoted investments | **100,076** | - | - | - | - | **(25,000)** | **75,076** |
| **Total level 3 financial assets** | **100,076** | - | - | - | - | **(25,000)** | **75,076** |

**Gains or losses on level 3 financial instruments included in the profit or loss for the year:**

No gains or losses on level 3 financial instruments were included in the profit or loss for the year.

**Transfer between level 1 and level 2**

During the year, the Bank transferred an investment in other debt securities with fair value of AED 18,317,000 as at 31 December 2009 which was classified as level 1 as at the end of previous year to level 2 as it ceased to be actively traded during the year. The fair value as at 31 December 2009 was based on valuation techniques using observable market inputs.

**Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions**

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

| | 31 December 2009 | |
|---|---|---|
| | Carrying amount AED'000 | Effect of reasonably possible alternative assumptions AED'000 |
| Financial investments available-for-sale | **75,000** | **7,500** |

## 24 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

### A. Determination of fair value and fair value hierarchy (continued)

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable models inputs as follows:

- For debt securities (other than asset backed securities), the Bank adjusted the probability of default and loss given default assumptions by increasing and decreasing the assumptions by 10%, which is a range that is consistent with the Bank's internal credit risk ratings for the counterparties.
- For equities, the Bank does not have a material exposure as at 31 December 2009 and accordingly no sensitivity analysis has been done.

### Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

### Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

### Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

## 25 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ ratios") and adopted by the Central Bank of UAE in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

### Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

## 25 CAPITAL ADEQUACY (continued)

The risk asset ratio calculations, in accordance with the capital adequacy guidelines established for the global banking industry, are as follows:

### RISK WEIGHTED EXPOSURES

| | Balance | | Risk weighted equivalents | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **AED'000** | AED'000 | **AED'000** | AED'000 |
| **Assets** | | | | |
| Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries | **39,814** | 38,729 | **-** | - |
| Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries | **1,559,077** | 1,071,316 | **311,815** | 214,263 |
| Claims secured by mortgage of commercial property | **604,964** | 1,373,416 | **604,964** | 1,373,416 |
| Claims on public sector entities, central governments, central banks and longer term claims on banks incorporated in non-OECD countries and all other assets, including claims on private sector entities | | | | |
| Claims at 0% | **1,094,210** | 965,058 | **-** | - |
| Claims at 20% | **162** | 77,793 | **32** | 15,559 |
| Claims at 50% | **15,115** | 3,648 | **7,558** | 1,824 |
| Claims at 100% | **3,681,585** | 4,030,489 | **3,681,585** | 4,030,489 |
| | **6,994,927** | 7,560,449 | | |
| **Off balance sheet items** | | | | |
| Credit commitments and contingent items (note 21) | **3,780,387** | 4,035,975 | **2,569,339** | 2,607,798 |
| Derivatives (note 20) | **607,985** | 568,948 | **3,197** | 3,511 |
| Credit risk weighted assets and off balance sheet items | | | **7,178,490** | 8,246,860 |
| Market risk weighted assets and off balance sheet items | | | **-** | - |
| Total risk weighted assets | | | **7,178,490** | 8,246,860 |
| Risk asset ratio | | | **18.9%** | 12.9% |

## 25 CAPITAL ADEQUACY (continued)

### RISK WEIGHTED EXPOSURES (continued)

Regulatory capital consists mainly of Tier 1 capital, which comprises share capital, share premium, retained earnings excluding current year profit, foreign currency translation less accrued dividends. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of UAE. The other component of regulatory capital is Tier 2 capital, which includes cumulative changes in fair values.

The Bank has complied with all the requirements as set by the Central Bank of UAE in respect of capital adequacy.

## 26 COMPARATIVE INFORMATION

AED 2,732,000 being premium received on currency options and forward foreign exchange contracts included in 'Interest and similar income' during the previous year and premium paid on currency options and forward foreign exchange contracts of AED 878,000 and loss of AED 4,678,000 on cash flow hedge recognised in income statement due to hedge ineffectiveness during the previous year which were included in 'Interest and similar expense' during the previous year have now been classified as and included in 'Net trading income (expense)' in the income statement for the previous year.

Such reclassifications have been done to conform to the current year's presentation and do not affect the previously reported profit or shareholders' equity.

## 27 SUBSEQUENT EVENT

Subsequent to the approval of the financial statements by the Board of Directors on 17 January 2010, the Board of Directors revised their recommendation in respect of proposed dividend from AED 219,208,000 at AED 0.22 per share of AED 1 each to AED 149,460,000 at AED 0.15 per share of AED 1 each. Accordingly, the financial statements for the year ended 31 December 2009 previously issued on 17 January 2010 were withdrawn.

# Basel II

# Pillar 3 Disclosures

These disclosures are being made in compliance with Circular No. 27/2009 dated 17th November 2009 issued by the Central Bank of the UAE, and should be read in conjunction with the Audited Financial Statements for 31st December 2009.

## A. INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENTS AS ON 31st Dec 2009

The Bank has no investments in subsidiaries or other significant investments at end of the year.

## B. CONSOLIDATED CAPITAL STRUCTURE AS ON 31st Dec 2009

(AED 000's )

| | Summary terms and conditions & main features of all capital instruments | Amount |
|---|---|---|
| **Tier 1 Capital** | | |
| 1. Paid up share capital/common stock | These represent Ordinary Shares of AED 1 each | 996,401 |
| 2. Reserves | | |
| a. Statutory reserve | Under Article 192 of UAE Commercial Companies Law No 8 of 1984 (as amended) (incl Share Premium) | 246,550 |
| b. Special reserve | Under Article 82 of Union Law No. 10 of 1980 | 163,995 |
| c. General reserve | - | 9,311 |
| d. Retained Earnings / (Loss) | - | 2,651 |
| Tier 1 Capital - Subtotal | | **1,418,908** |
| **Tier 2 capital** | Being net loss on Revaluation of Bank's assets | (35,416) |
| Less: Deductions for inadmissible items | Revaluation reserve on Bank's property assets | (24,025) |
| Tier 2 Capital - Subtotal | | **(59,441)** |
| **Tier 3 capital** | | - |
| **Total eligible capital after deductions** | | **1,359,467** |

## C. CAPITAL ADEQUACY AS ON 31st Dec 2009

### a) Qualitative Disclosures

While complying with high risk-management standards and sound practices, UAB desires to achieve excellence in this domain as has recently been reflected and enforced by some important steps undertaken in this direction.

The first step was to create a Risk Group headed by the Chief Risk Officer (CRO) of the Bank where all the three risk segments (i.e. Credit, Market and Operational risk) heads are reporting to CRO. The Bank has also created the Board Audit and Risk Committee (BARC). This committee is responsible for setting up policies on all audit and risk issues and liaise with the Board of Directors for Audit, Risk & Compliance issues. These steps will provide a good base for the risk management framework, improve quality of decisions, and strengthen the risk management strategy.

### Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

### Market Risk

The Bank's Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Asset and Liability Committee (ALCO).

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

### Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. In this respect the Bank has enforced the operational risk assessment and monitoring system through systematic approach and tools, and is looking forward to progress to high standards of operational risk management.

## C. CAPITAL ADEQUACY AS ON 31st Dec 2009 (continued)

### b) Quantitative Disclosures

Capital Requirements

| | Risk Weighted Assets (AED 000's) | Capital Ratio (%) |
|---|---|---|
| 1. Credit Risk - Standardised Approach | 7,162,578 | |
| 2. Market Risk - Standardised Approach | 215 | |
| 3. Operational Risk - Basic Indicator Approach | 622,722 | |
| **Total Risk Weighted Assets** | **7,785,515** | |
| **Capital Base** | | **1,359,467** |
| Capital Ratio | | |
| a. Total for the Bank | | 17.5% |
| b. Tier 1 ratio only for the Bank | | 18.2% |

## D. CREDIT RISK UNDER STANDARDIZED APPROACH AS ON 31st Dec 2009

### a) Qualitative Disclosures

#### Definition of past due and impaired

Past due accounts are those where the obligations are not met on the due date. Impairment of loan and advances occurs where re-payment of principal or interest is not in line with the Central Bank of the UAE guidelines.

#### Description of approaches followed:

*Specific*

Specific provisioning on loans and advances are made as follows:
- on Corporate accounts provisions are made in compliance with IAS 39 standards
- on Retail accounts provisions are made as given below:

| | |
|---|---|
| - 180 to 270 days past due | 30% of the total net of end of service benefits (EOSB) |
| - 270 to 360 days past due | 70% of the total net of end of service benefits (EOSB) |
| - > 360 days past due | 100% of the total net of end of service benefits (EOSB) |

*General*

- on Corporate cash and non-cash outstandings general provision is calculated on the basis of risk rating of the performing accounts portfolio.
- on Retail accounts general provision is calculated at 3.25% on the performing accounts portfolio.

### b) Quantitative Disclosures

#### 1. Exposures by Currency Type

For details kindly refer to Note 22 "Risk Management - Currency Risk" of Notes to the Financial Statements at 31st December 2009.

#### 2. Exposures by Geographical Region

For details kindly refer to Note 22 "Risk Management - Credit Risk" of Notes to the Financial Statements at 31st December 2009.

## D. CREDIT RISK UNDER STANDARDIZED APPROACH AS ON 31st Dec 2009 (continued)

### b) Quantitative Disclosures (continued)

#### 3. Exposures by Economic Sector

For details kindly refer to Note 7 "Loans & Advances" of Notes to the Financial Statements at 31st December 2009.

#### 4. Exposures by Residual Contractual Maturity

For details kindly refer to Note 22 "Risk Management - Liquidity Risk" of Notes to the Financial Statements at 31st December 2009.

#### 5. Past due & impaired Loans by Industry Segment

(AED 000's )

| | OVERDUE | | | | | |
|---|---|---|---|---|---|---|
| INDUSTRY SEGMENT | Less than 90 days | 90 days & above | Non-performing | TOTAL | Specific / General Provisions | Net Past Due Loans |
| Agriculture, Fishing & related activities | - | - | 85 | 85 | 63 | 22 |
| Crude Oil, Gas, Mining & Quarrying | | | | | | |
| Manufacturing | 1,040 | 3,311 | 2,119 | 6,470 | 2,333 | 4,137 |
| Electricity& Water | - | 3,031 | - | 3,031 | - | 3,031 |
| Construction | - | - | 11,380 | 11,380 | 6,678 | 4,702 |
| Trade | 10,351 | 18,350 | 8,188 | 36,889 | 6,914 | 29,975 |
| Transport, Storage & Communication | 379 | - | 4,904 | 5,283 | 2,886 | 2,397 |
| Financial Institutions | - | - | - | - | - | - |
| Services | - | - | - | - | - | - |
| Government | - | - | - | - | - | - |
| Retail/consumer banking | 142,740 | 5,430 | 79,352 | 227,522 | 63,817 | 163,705 |
| All Others / General Provision | - | - | - | - | 50,881 | -50,881 |
| **Grand Total** | **154,510** | **30,122** | **106,028** | **290,660** | **133,572** | **157,088** |

#### 6. Past due & impaired Loans by Geographical Region

(AED 000's)

| | OVERDUE | | | | | |
|---|---|---|---|---|---|---|
| GEOGRAPHIC REGION | Less than 90 days | 90 days & above | Non-performing | Total | Specific / General Provisions | Net Past Due Loans |
| United Arab Emirates | 154,510 | 30,122 | 106,028 | 290,660 | 133,572 | 157,088 |
| **Total** | **154,510** | **30,122** | **106,028** | **290,660** | **133,572** | **157,088** |

#### 7. Reconciliation of changes in Provision for impaired Loans

For details kindly refer to Note 7 "Loans & Advances" of Notes to the Financial Statements at 31st December 2009.

### D. CREDIT RISK UNDER STANDARDIZED APPROACH AS ON 31st Dec 2009 (continued)

#### b) Quantitative Disclosures (continued)

##### 8. Loans Portfolio as per Standardized Approach

(AED 000's )

| Asset Classes | On Balance Sheet<br>Gross Out-Standing | Off Balance Sheet<br>Net Exposure After Credit Conversion Factors (CCF) | Exposure Before CRM | Credit Risk Mitigation (CRM) | Exposure After CRM | Risk Weighted Assets |
|---|---|---|---|---|---|---|
| Claims On Sovereigns | 458,836 | - | 458,836 | - | 458,836 | - |
| Claims On Non-Central Govt Public Sector Entities (Pses) | 289,519 | - | 289,519 | - | 289,519 | 654 |
| Claims On Multi Lateral Development Banks | - | - | - | - | - | - |
| Claims On Banks | 1,410,182 | 195,142 | 1,605,324 | - | 1,605,324 | 570,248 |
| Claims On Securities Firms | - | - | - | - | - | - |
| Claims On Corporates | 3,445,995 | 2,584,989 | 5,986,208 | 437,926 | 5,548,282 | 5,339,227 |
| Claims Included In The Regulatory Retail Portfolio | 631,322 | - | 610,552 | - | 610,552 | 457,914 |
| Claims Secured By Residential Property | - | - | - | - | - | - |
| Claims Secured By Commercial Real Estate | 641,695 | - | 641,695 | - | 641,695 | 641,695 |
| Past Due Loans | 120,558 | - | 39,610 | - | 39,610 | 50,449 |
| Higher-Risk Categories | - | - | - | - | - | - |
| Other Assets | 142,334 | - | 142,334 | - | 142,334 | 102,391 |
| Claims On Securitised Assets | - | - | - | - | - | - |
| Credit Derivatives (Banks Selling Protection) | - | - | - | - | - | - |
| **Total Claims** | **7,140,441** | **2,780,131** | **9,774,078** | **437,926** | **9,336,152** | **7,162,578** |

## D. CREDIT RISK UNDER STANDARDIZED APPROACH AS ON 31st Dec 2009 (continued)

### b) Quantitative Disclosures (continued)

#### 9. Loans Portfolio based on External Ratings as per Standardized Approach

*a) Qualitative Disclosures*

For purposes of computing Risk Weighted Assets, only ratings assigned by ECAIs (External Credit Assessment Institutions) as approved by the Central Bank of the UAE are being considered.

*b) Quantitative*

(AED 000's)

| | Gross Exposure Before (CRM) | | | | |
|---|---|---|---|---|---|
| Asset class | Rated | Unrated | Total | CRM | Exposure after CRM |
| Claims On Sovereigns | 458,836 | - | 458,836 | - | 458,836 |
| Claims On Non-Central Govt Public Sector Entities (Pses) | 289,519 | - | 289,519 | - | 289,519 |
| Claims On Multi Lateral Development Banks | - | - | - | - | - |
| Claims On Banks | 1,605,324 | - | 1,605,324 | - | 1,605,324 |
| Claims On Securities Firms | - | - | - | - | - |
| Claims On Corporates | 271,334 | 5,714,874 | 5,986,208 | 437,926 | 5,548,282 |
| Claims In Regulatory Retail Portfolio | | 610,552 | 610,552 | - | 610,552 |
| Claims Secured By Residential Property | | - | - | - | - |
| Claims Secured By Commercial Real Estate | | 641,695 | 641,695 | - | 641,695 |
| Past Due Loans | | 39,610 | 39,610 | - | 39,610 |
| Higher-Risk Categories | | - | - | - | - |
| Other Assets | | 142,334 | 142,334 | - | 142,334 |
| Claims On Securitised Assets | | - | - | - | - |
| Credit Derivatives (Banks Selling Protection) | | - | - | - | - |
| **Grand Total** | **2,625,013** | **7,149,065** | **9,774,078** | **437,926** | **9,336,152** |

## D. CREDIT RISK UNDER STANDARDIZED APPROACH AS ON 31st Dec 2009 (continued)

### 10. Credit Risk Mitigation - Disclosures for Standardized Approach

*a) Qualitative Disclosures*

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collaterals obtained are cash, securities, charges over real estate properties, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

Management monitors the market value of collaterals, and requests additional collateral in accordance with the underlying agreement. It also monitors the market value of collaterals obtained, during its review of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

*b) Quantitative Disclosures*

(AED 000's)

| | Exposures | Risk Weighted Assets |
|---|---|---|
| Gross Exposure prior to Credit Risk Mitigation (CRM) | 9,774,078 | |
| Less: Exposure covered by CRM and on-balance sheet netting | 437,926 | |
| **Net Exposures after Credit Risk Mitigation** | **9,336,152** | **7,162,578** |

Note: In addition, the Bank had Guarantees against Credit exposures, which enabled shift from higher to lower risk categories. These amounted to **AED 235,075** (thousands), and have been considered in computation of Risk Weighted Assets

## E. MARKET RISK - UNDER STANDARDISED APPROACH AS ON 31st Dec 2009

(AED 000's)

| Category of Risk | Capital required | Risk Weighted Assets equivalent |
|---|---|---|
| Interest rate risk | - | |
| Equity position risk | - | |
| Foreign exchange risk | 22 | |
| Commodity risk | - | |
| Options risk | - | |
| **Total Capital Requirement** | **22** | **215** |

### 1. Equity Position in the Banking Book

For details kindly refer to Note 12 "Investments" of Notes to the Financial Statements at 31st December 2009.

### 2. Realised, unrealised and latent Revaluation Gains/(Losses) during the year

For details kindly refer to Note 18 "Cumulative changes in Fair Values" of Notes to the Financial Statements at 31st December 2009.

### 3. Items in (2) above, included in Tier 1 / Tier 2 Capital:

(AED 000's)

| | Amount |
|---|---|
| Amount included in Tier 1 capital | - |
| Amount included in Tier 2 capital | (59,441) |
| **Total** | **(59,441)** |

### 4. Interest Rate Risk in the Banking Book (IRRBB)

For details kindly refer to Note 22 "Risk Management - Market Risk - Interest Rate Risk" of Notes to the Financial Statements at 31st December 2009.

## F. OPERATIONAL RISK - UNDER BASIC INDICATOR APPROACH

Computation of Capital Charge and Risk Weighted Assets equivalent for Operational Risks is as follows at 31st December 2009:

(AED 000's)

| | Year | Amount |
|---|---|---|
| Gross Income (including Interest in suspense) | 2007 | 346,909 |
| | 2008 | 423,169 |
| | 2009 | 475,349 |
| | | 1,245,427 |
| **3-year average** | | **415,142** |
| Beta factor | | 15% |
| Capital charge | | 62,272 |
| **Risk Weighted Assets equivalent** | | **622,722** |