Annual Report

2010

البنك العربي المتحد

UNITED ARAB BANK

PJSC

Annual Report

2010

Branches

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Fax: 06-5549801

Al Wahda
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Fax: 06-5359134

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P.O. Box 4579, Dubai
Tel: 04- 2220181
Fax: 04- 2274309

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Fax: 04- 3321332

Jebel Ali
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Fax: 07-2270969

Dehan
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Fax: 07-2359875

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Board of Directors

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Founder and Chairman of the Board of United Arab Bank (P.J.S.C), since 1975. Attained rank of Major General of the armed forces which included Under Secretary of the Ministry of Defense, Chief of Staff, Chairman of the Court of Crown Prince - HH Sheikh Khalifa Bin Zayed Al Nahyan. Chairman of the Board of Arab Organization of Industries.
Assumed the role of the Chairman of the Board of Arab Organization of Industries and Establishment and is the Chairman of the Board of several public and private companies amongst which GIBCA, Grand Stores and Coral International.
He is the co-establishment of The Banks Association and The National Contractors Association in the UAE.

Board of Directors

Mr. Omar Hussain Al Fardan
Vice Chairman

Chairman of National Bank of Oman. Director of the Commercial Bank of Qatar and of United Development Co. President of various companies of the diversified Alfardan Group. President of Resorts Development Co., Chairman of Qatar District Cooling Co. and Vice Chairman & Managing Director of Qatar Dredging Co. Board Member of the Qatar Red Crescent Society.

Sheikh Sultan Bin Saqr Al Qassimi
Director

Co-founder and Managing Director of GIBCA, industrial, construction, and investment group. Director in ABRAAJ Capital. Served as the UAE Representative and Member of the Board of Union of Arab Bank. Director of the Board of various Public Joint Companies. Currently Vice Chairman of Arab Technical Construction Company “ARABTEC” (PJSC).

Sheikh Abdullah Bin Ali Bin Jabor Al Thani
Director

Vice Chairman of Commercial Bank of Qatar and Director of National Bank of Oman. Owner of Abdullah bin Ali Trading Company. Successful Businessman and son of Sheikh Ali bin Jabor Al Thani, one of the founding members of the Bank and Chairman of the Board of Commercial Bank until 1999.

Mr. Ahmed Mohamad Hamad Al Midfa
Director

Chairman of Sharjah Chamber of Commerce & Industry and Expo Centre Sharjah and Board Member of the UAE Federation of Chambers of Commerce and Industry. Director of the Bureau of HH the Ruler of Sharjah, Director General of Sharjah Ports and Customs Department, and of Second Deputy Chairman of the Federal National Council. Member of the Egyptian-UAE, the Tunisian-UAE, and Oman-UAE Business Councils and Co-Chairman of the Joint UAE-Germany Business Council.

Mr. Mohamed Abdulbaki Mohamed
Director

Chairman and CEO of Petrolcom Oil and Gas Services and Cristal Hotels & Resorts. Director of Interplast & Cosmoplast Companies and Arab Fund for Economic & Social Development. Alternate Governor of OPEC Fund For International Development. General Manager of Emirates Industrial Bank and Board Member for a number of leading companies.

Mr. Ahmed Mohamad Bakheet Khalfan
Director

Previously Deputy General Manager of Emirates Industrial Bank. Served as Chairman and Board Member of Emirates Modern Poultry Company and Board Member of a group of companies including Emirates Rawabi, ALICO, Al Khaleej Glass, and Takaful Ray.

Mr. Andrew Stevens
Director

Member of the Board of Directors of National Bank of Oman. Group Chief Executive Officer of the Commercial Bank Group. Chairman of Diners Club Egypt and of Diners Club Bahrain and Chairman of Orient 1 Ltd. Board Member of Red Crescent Society in Qatar.

Mr. Hugh Edward Thompson
Director

Executive General Manager and Group Chief Legal and Corporate Affairs Officer of The Commercial Bank of Qatar. Director of National Bank of Oman, Orient 1 Limited and Diners Club Services Egypt. Member of the Board of United Arab Bank's Executive Credit Committee, Audit Committee and Corporate Governance Committee.

Principal Officers

Paul Trowbridge
Chief Executive Officer

Awni Alami
Deputy Chief Executive Officer

Shahid Baloch
Executive Vice President
Group Head - Commercial Banking

Bede Joseph Pohlen
Executive Vice President
Chief Risk Officer

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

Tom Smith
Executive Vice President
Group Head - Retail Banking

Anthony Macrae
Executive Vice President
Group Head - Business Support

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 February2005, 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 13 offices and branches throughout the UAE, the Bank offers its 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 its “Sadara” premium banking service and Islamic Banking Services, the Bank has grown its retail customer base, aiming to expand further.

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 of40% 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.

Awards

In its continuous quest for excellence, UAB won various awards that reflected the Bank's commitment to creating a premium banking experience to all its customers and investors. From Retail Banking to Wealth Management, to Islamic Banking and Corporate Banking, UAB's philosophy of striving for excellence creates a competitive environment where awards are simply milestones on the road to creating a bank that always puts its customers first.

- Best Customer Service Award by The Banker Middle East Product Awards.
- Best Trade Finance House by The Banker Middle East Industry Awards.
- Best Credit Card Design Award by Visa International (awarded to UAB's Platinum Sadara Credit Card).
- Best Website in the UAE- Retail Category by The Banker Webranking Committee & Union of Arab Banks.
- Best Bank of the Year by The Arab Achievement Awards 2010.
- Emiratization of Branch Managers Award by The Human Resources Development Committee in the Banking & Financial Sector.

HH Dr. Sheikh Sultan Bin Mohamad Al Qassimi, Ruler of Sharjah, handing the Emiratization of Branch Managers Award to Paul Trowbridge (CEO)

HE Sheikh Faisal Bin Sultan Bin Salem Al Qassimi (Chairman), Paul Trowbridge (CEO) and Tom Smith (EVP Retail) receiving Best Credit Card Design Award by Visa International

Paul Trowbridge (CEO) receiving Best Customer Service Award by The Banker Middle East

Paul Trowbridge (CEO) receiving Best Trade Finance House Award by The Banker Middle East

Paul Trowbridge (CEO), Shahid Baloch (EVP Commercial),Tom Smith (EVP Retail),Taqi Hassan (CBG Head) and Jehad Mattar (Ras Al Khaimah Br. Manager) receiving the Best Bank of the Year Award by The Arab Achievement Awards 2010

Tom Smith (EVP Retail) receiving Best Website in the UAE Award - Retail Category by The Banker Webranking Committee & Union of Arab Banks

Management Review

1. Overview

Despite the lingering effects of the global financial crisis, United Arab Bank (UAB) is pleased to report a record net profit of AED 308 million as at 31 December 2010, a growth of 10% on 2009. During 2010, UAB increased customer deposits by 9% and, whilst maintaining a prudent and pragmatic approach to lending, Loans & Advances grew by 16% from AED 4.77 billion in 2009 to AED 5.53 billion in 2010. Key financial ratios remained strong with the Capital Adequacy Ratio at a high level of 20.4% as against a minimum regulatory requirement of 12%, which demonstrates sufficient capital to support future growth; and a stable funds ratio of 86.3%, significantly within the maximum limit of 100% set by the Central Bank.

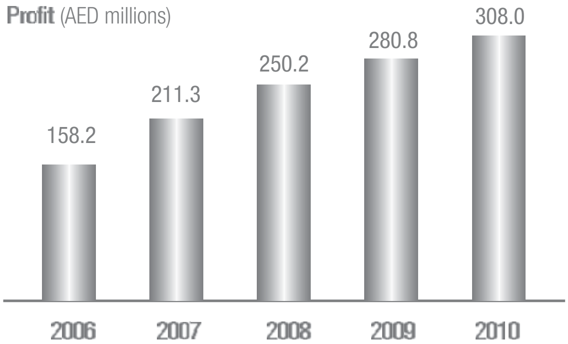
UAB's financial results for the year ended 31 December 2010 demonstrate that the Bank continues to enjoy a high level of profitability and solvency.

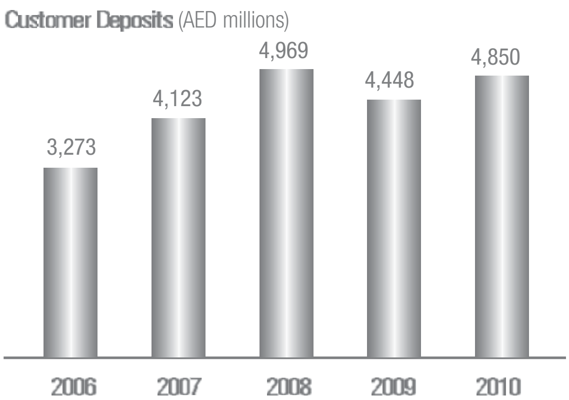
The Bank has expanded its branch network in 2010 with new branches opened in Fujairah and Sharjah and a refurbishment of existing branches in Ras al Khaimah, Sharjah - Rolla and Sheikh Zayed Road. 2011 will see the continued expansion of the branch network and further refurbishment of existing branches to meet customer requirements.

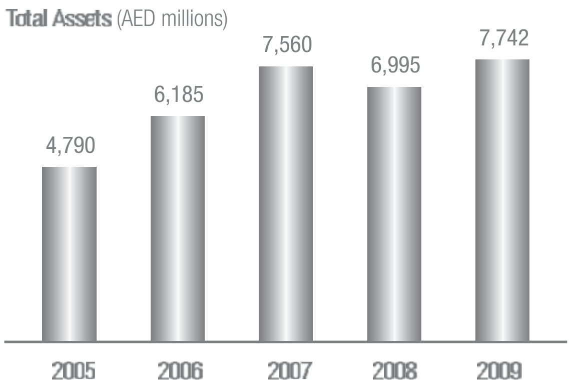
During 2010 the Bank embarked on a project in conjunction with our strategic partner, Commercial Bank of Qatar, to change the Bank's existing Core Banking System to a more technologically advanced system with the aim of driving efficiencies by sharing best practices wherever possible. This project is due for completion in the first quarter of 2012.

In 2011 the Bank will continue to focus on the Retail Banking business with a strong emphasis on High Net Worth (Sadara) clients.

Going forward, the Bank is well positioned to capitalise on the business opportunities created by the gradual economic recovery. Our vision is to pursue a prudent expansion strategy, based on solid foundations and revenue generation.





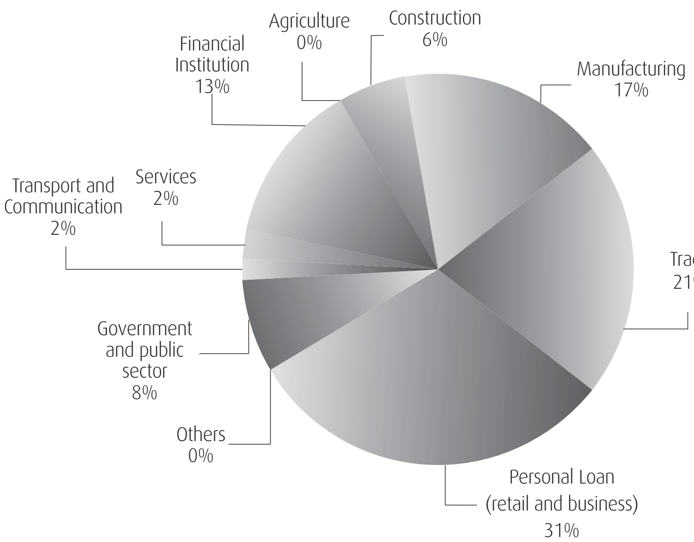


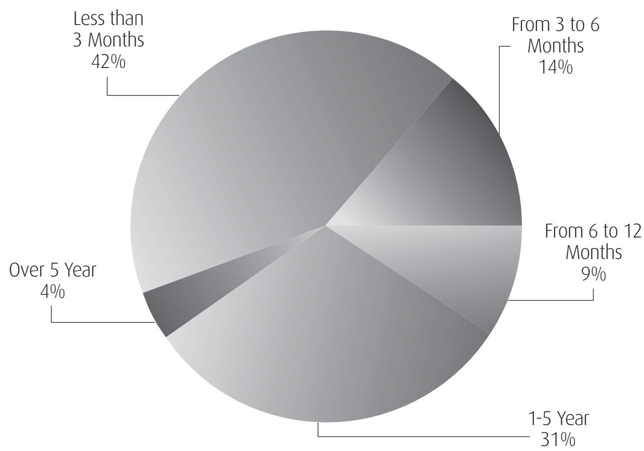
2. Corporate Banking Group

2010 continued to be a challenging year with continued economic downturn and difficult market conditions. Nonetheless, a realignment of the Corporate Banking group's business strategy in 2010 to capture emerging low risk lending opportunities resulted in the increase of Corporate Loans & Advances by more than 8% in 2010 compared with a decline of 12.9% in 2009.

The growth in Loans & Advances was attributable primarily to strategic sectors such as Government and Public Sector; Services; and Financial Institutions. The overall Corporate Loan portfolio remains diversified by sector and geographically throughout the UAE.

UAB continued to support its traditional corporate customer base in the manufacturing and trade sectors throughout the economic crisis with particular emphasis in meeting their trade finance needs. During 2010, the Bank continued to take major steps to bring its Trade Finance decision making closer to the customer, simplifying paperwork and speeding up processes to provide superior levels of service, as further support to the Bank's Trade Finance customers in understanding and managing the challenges they face. In furtherance of this UAB ran a Trade Finance workshop for its customers conducted by a renowned expert on trade finance and a member of the ICC Banking Commission. This consistent focus on excellence in the Trade Finance services sector was validated by an award of "Best Trade Finance House" by Banker Middle East Industry Awards 2010 which recognizes financial institutions that are truly innovative and provide the benchmark for successful banks.





With the improvement in local market conditions, the Corporate Banking Group recommenced selectively assessing major debt transactions. UAB participated as Lead Arranger in a syndicated AED 1.4 billion Structured Term Ijara facility for a leading UAE corporation. Going forward, the Bank will be selective in actively pursuing similar opportunities in 2011.

3. Retail Banking Group

2010 was a further year of reorganisation, restructuring and platform building following the creation of a separate Retail Banking Group in 2009.

During 2010, despite the continuing difficult economic climate, UAB increased its Retail Credit Portfolio by 46% to AED 1.053 billion increasing its share of total loans and advances of the Bank from less than 15% in 2009 to 19% as at 31 December 2010. The strategy of selective and prudent lending to UAE Nationals and high net worth individuals, as approved by the Board in 2009, together with the strengthening and reorganization of the Retail Collections and Recovery Department, has also resulted in a reduction of NPL's from 10.72% in 2009 to 9.6% in 2010.

UAB opened two new branches in Al Buhairah Corniche Sharjah and the Industrial Zone, and the first UAB branch in the Emirate of Fujairah whilst also refurbishing three further branches in Ras al Khaimah, Sharjah - Rolla and Sheikh Zayed Road. In addition, UAB launched four Sadara (Premium Banking) lounges in Al Buhairah Corniche, Rolla, Sheikh Zayed Road and Fujairah branches catering to the needs of high net worth individuals.

In March 2010, UAB launched "UAB Islamic Banking Services" and is now capitalising on the opportunities that the evolving Islamic Finance Sector offers. A UAE National was appointed Head of Islamic Banking and UAB has opened three Islamic Suites in Sharjah, Dubai and Fujairah with plans for further suites in Ras Al Khaimah and Abu Dhabi. UAB Islamic Banking Services now offers a full range of Retail structures and liability structures and 2011 will see the introduction of Ijara Home Loan Finance services to match the Bank's Conventional Mortgage offering launched late 2010. With a wide range of product offerings, the Islamic window has successfully achieved approximately AED 600 million in customers' deposits .

UAB received an award from VISA International for successfully launching the First Vertical Islamic Credit Card in the Middle East. The prestigious Banker Magazine awarded UAB the Best Customer Service Award in the Retail Banking Category for 2010. In addition, the Bank's website (www.uab.ae) received an award from the Union of Arab Banks for the second consecutive year for the best Retail website and the Bank received an Emiratisation Award, for having all Branch Manager roles filled by UAE Nationals.

The Retail Banking Group is confident that the continuing successful implementation of our strategy will allow Retail Banking to become a greater contributor to the Bank's profitability in 2011.

HE Sheikh Faisal Bin Sultan Bin Salem Al Qassimi (Chairman) announcing the Launching of the Islamic Banking Services

Handing Fabio Canavaro a UAB Sadara Platinum Credit Card at the re-opening of Sheikh Zayed Road Branch

4. Treasury and Capital Markets

2010 witnessed efficient management of funding requirements, including liquidity risk, funding gaps, and diversification of funding sources. Treasury continues to be actively involved in the inter bank money market as well as managing a portfolio of large institutional depositors' funds. The year-end Loan to Stable Funds ratio was 86.3%, well below the regulatory requirement of 100%. Other related liquidity ratios were maintained well within the regulatory benchmarks as well as within the Bank's internal policies and guidelines throughout the year.

During 2010, UAB opened a treasury window within its Islamic business creating additional funding opportunities for the Bank. The treasury window manages approximately AED 600 million under Wakala /Murahaba deposits.

Despite the challenging environment, Treasury mobilized over AED 1 billion new funds due to its direct dealings with large depositors at very competitive price. During 2010, Treasury initiated strategies resulting in a significant reduction in funding cost and largely influenced an improvement in the overall Net Interest Margin (NIM) for the Bank. The Bank's NIM of 5.35% for 2010 (improved from 4.97% for 2009) compares very positively with the averages for the UAE banking sector.

Treasury offers dedicated and active trading opportunities in FX Spot / Forward to corporate and high net worth clients. It offers currency and interest rate derivatives as well as a selective range of investment products such as enhanced yield structured products, fixed income securities and other investments aligned to the specific needs and appetite of clients.

As part of its investment and liquidity strategy, the Bank invests in liquid and marketable fixed income securities. The Bank's investments of AED 500 million represent 6.5% of its total assets. These investments comprise a mix of government, semi-government and corporate bonds and Sukuks from UAE & GCC countries. The investment portfolio performed well and its market valuation materially improved by AED 18 million (40%) during 2010.

5. Risk Management

Risk Management continues to be a key focus of the Bank; prudent risk management has ensured that no exposures with substantial risk elements have been booked. The Bank continuously strengthens risk management policies and processes, investing in technology to upgrade its overall risk management framework.

The Risk Management Group is headed by the Chief Risk Officer who reports to the Chief Executive Officer. The Risk Management Group is comprised of the following specialist departments: Corporate Credit Risk; Corporate Special Assets; Retail Credit Risk; Retail Collections and Recovery; Corporate Credit Administration; Portfolio Management; Market Risk; Operational Risk, Compliance and Corporate Governance; and Legal.

The Board has the overall responsibility for oversight of the Bank's risk management framework. The Board has established an Asset and Liability Committee (ALCO), General Management Risk Committee (GMRC), General Management Credit Committee (GMCC), Board Credit Committee (BCC), and Board Audit & Risk Committee (BARC). These committees meet regularly to ensure that the Bank is adhering to the highest risk standards and are responsible for developing and monitoring the Bank's risk management policies in each of their specified areas.

5. Risk Management (continued)

A number of new hires were made in 2010, including a Chief Risk Officer, Head of Retail Credit Risk and Head of Operational Risk, Compliance and Corporate Governance. In addition, the Retail Collections and Recovery department became part of the Risk Management Group. The new management of the Risk Management Group made significant developments during the year, with the approval of a Risk Appetite and Credit Strategy paper by the Board of Directors and the approval of a Risk Charter by the BARC. The centralization of Credit Administration functions began in phases, and a strengthening of the Bank's Retail Credit Risk Unit was undertaken to cater to the high projected growth in the coming years.

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

Given the nature of the Bank's business, the main risk groups that the Bank faces are Credit Risk, Operational Risk and Liquidity Risk. There is minimal Market Risk, Interest Rate Risk or Foreign Exchange Risk that the Bank needs to manage due to the nature of its operations.

The Bank continues to be well-positioned to manage the increased level and diversity of business risks in the local and regional markets. Section 23 of the Notes to the Financial Statements provides 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.

Operational Risk

The Bank defines Operational Risk as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists throughout the Bank. The Bank has closely reviewed the various recommendations issued by the 'Basel Committee on Sound Practices for the Management and Supervision of Operational Risk' for implementation, and where appropriate, has effected the necessary changes.

The Bank continues to invest in risk management and mitigation strategies such as a robust control infrastructure, business continuity management or through risk transfer mechanisms such as insurance.

The Bank has a well-defined operational risk framework and an independent operational risk function reporting into the Chief Risk Officer. Oversight of Operational Risk is provided by the Board Audit and Risk Committee.

Compliance

The Compliance Function of the Bank is responsible for managing regulatory risk. The Bank is regulated by the Central Bank of the UAE and has a number of regulatory obligations to meet. The requirement to establish processes and procedures designed to minimize the risk of the Bank's systems, and accounts being used for laundering the proceeds of crime or being used to finance terrorist activities. The Bank's processes and procedures include the requirement to identify suspicious transactions and report them, where appropriate, to the Central Bank's Anti Money Laundering Unit.

The Compliance Function has an established framework approved by the BARC which includes an on-going risk-based monitoring programme designed to provide the Board of Directors with the assurance that the Bank is meeting the rules and regulations of the Central Bank.

Corporate Governance

The Bank has a strong commitment to building a robust corporate governance framework, and to increasing the transparency and disclosures on the quality of the Bank's assets, and the manner in which the business of the Bank has been managed. The organization and structure of the Board of Directors and Executive Management, with clearly differentiated roles and responsibilities, is aligned to best practices for protection of the interests of depositors, shareholders, creditors, employees and other stakeholders.

The governance structure and policies at UAB are being enhanced to enable the Board of Directors to maintain effective and regular oversight over the risks inherent in the Bank's business. The Board approves strategic objectives, appropriate risk strategies, policies and procedures and ensures that business plans, budgets, and risk appetite are properly aligned with the size, volume and range of business activities. The Board also has the responsibility to set corporate governance values, codes of conduct, and standards of compliance with banking laws and regulatory guidelines. This is administered through the Board Audit and Risk Committee.

Board level committees meet with the Bank's Management at regular intervals, to monitor and evaluate the Bank's financial performance and risk exposures, as well as new business and products. The Board has oversight responsibility for ensuring the quality and integrity of accounting, auditing, internal control and external financial reporting, as well as ethical practices, and transparency in business processes and financial reporting. The Board also plays on important role in the selection, compensation structures and performance evaluation of key senior management executives.

Board and Board Committee Structure

The following illustrates the make-up of the Board of Directors and the Committees of the Board of Directors.

Board of Directors
9 Members, comprising:
5 Independent Members
9 Non-Executive Members

Board Audit & Risk Committee
4 Members comprising:

2 Independent Members
4 Non-Executive Members

Board Credit Committee
5 Members comprising:

3 Independent Members
5 Non-Executive Members

Board Executive Committee
4 Members comprising:

2 Independent Members
4 Non-Executive Members

Remuneration & Compensation Committee
4 Members comprising:

2 Independent Members
4 Non-Executive Members

UAB has a Corporate Governance Policy which has been approved through the BARC.

6. Operations & Information Technology

The focus towards the optimisation, lean management and centralization of operations has been maintained at a sustained pace targeting a containment of costs, improvement in efficiency, and better management information. Central operations have continued to be the focus, for enhancement of the processes and for our improvement of turn around times.

We have conducted a reshaping of the processing functions in UAB branches whereby operations staff perform the support functions to our retail activities. Our target is a smooth synergy between operations and retail within the branches.

During the course of 2010, the Bank has worked hard with the business lines to develop and implement new processes and products. We have successfully delivered on a number of major projects such as the implementation of the Wage Protection System, the launch of salary cards for our corporate customers' employees, the opening of cash and cheque deposit services in ATMs, the system changes to handle newly launched retail and Islamic products and schemes being the business loans, the flexi deposits, the mortgage loans, the Islamic savings accounts, the tawaruq transactions and Islamic credit cards.

2011 is likely to see a continuation of the pace of restructuring within the Operations and Information Technology Group. A number of major developments are in progress in co-operation with Commercial Bank of Qatar and National Bank of Oman (our Alliance partners) including the following:

- The implementation of a new core banking system through UAB's acquisition of Misys Bank Fusion Equation 4.0, along with a fully fledged e-banking solution. This implementation will shape a new working environment and be a valuable tool to further optimise and strengthen the Bank's operations and commercial capabilities. UAB's implementation will be followed by the Alliance banks upgrade to Misys Bank Fusion, the ultimate target being that all three banks of the Alliance will operate on the same Misys platform leading to synergies and cost effectiveness.
- The integration of call centers together with a revamping of the Bank's operations and processes toward more efficiency.

This ambitious and comprehensive program is intended to place UAB in a leading position among its peers, enabling UAB to compete in terms of cost and processing efficiency versus its counterparts.

7. Human Resources

Human Resources at UAB continues its positive trajectory from being operationally reactive to strategically proactive, from adding relatively less to adding relatively more to the Bank's competitive advantage.

UAB's Emiratisation Program, Al Tamayouz, continues to be a key strategic initiative driven through the Human Resources Department. Management focus and program execution have delivered excellent results in 2010 evidenced by the overall Emiratization percentage improving to 39% in 2010 from 35% in 2009. This initiative focuses on 3 core elements:

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

UAB experienced low staff turnover compared to the industry in 2010, and higher levels of staff satisfaction than in 2009 – as measured through the annual Staff Satisfaction Survey. Staff retention and satisfaction points to sound culture management, focusing the internal culture on meeting the needs of external customers and encouraging executives and employees to behave consistently with the desired culture. This leads to better staff performance and improved business results.

Additionally, UAB implemented the following training successfully in 2010 to support the organization:

- Trade Finance Skills – A customer workshop for UAB corporate customers in Abu Dhabi.
- Operational Risk Management – Training awareness sessions on operational risk management to cover all levels of staff, per Central Bank and Risk Governance framework.
- Advanced Corporate Credit Analysis - Training on potential credit risk, to adequately identify and assess risks inherent in borrower's business, quantify risks, build cash flow and future financial statements and properly document the loan.
- Problem Credits – Training to improve Problem (corporate) loan management skills and reduce provisions/losses.

The training calendar, based on needs analyzed through a robust identification process and ratified by senior management, has yielded 4248 training man-hours covering 13 in-house programs and 27 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 Career Exhibitions organized on an annual basis in Sharjah under the auspices of the Human Resources Development Committee for the Banking and Financial Sector. The Bank also contributes to specialized career days and career panel discussions held at Zayed University and HCT Colleges promoting UAB as an employer of choice.

8. Premises

2010 witnessed the completion of three new branches; two in Sharjah, and one in Fujairah. During 2011, UAB expects to complete five new branches in Abu Dhabi together with branch refurbishments in Abu Dhabi and Dubai, demonstrating the Bank's focus on its target market comprising UAE nationals and committed expatriates; a wider base of affluent customer. The branch network will develop geographically and qualitatively to reflect UAB's customers' needs serving to reinforce its status as a venerable banking institution with a strong heritage directed at premium customers.

UAB's branches offer a full range of consumer and business banking services including 24 hour ATM services, and dedicated Sadara Lounges with resident Relationship Managers. With the roll out of new ATMs & Cheque and Cash Deposit Machines (CCDMs) across an increasing branch network coupled with strategically placed Sadara suites, UAB's approach serves to bring banking services to the customer and manage effectively and appropriately customer transactions across the spectrum of its customer base; promoting UAB as a reliable bank of convenience.

By continuing to increase our footprint in the emirate of Abu Dhabi, UAB is strategically placed for sustainable and focused growth.

HE Sheikh Faisal Bin Sultan Bin Salem Al Qassimi (Chairman) opening Sharjah Corniche Branch

HH Sheikh Mohammed Bin Hamad Bin Mohammad Al Sharqi, Crown Prince of the Emirate of Fujairah opening Fujairah Branch

HE Sheikh Sultan Bin Saqer Al Qassimi (Director), his son Sheikh Faisal Bin Sultan Al Qassimi, Paul Trowbridge (CEO), Fabio Canavaro, and Tom Smith (EVP Retail) at the re-opening of Sheikh Zayed Road Branch

Fabio Cannavaro scoring a goal into UAB's Sheikh Zayed Road Branch

9. Community Services

Since the launch of Al Thiqah Program for employing and developing special-needs citizens in 2002, a programme run in collaboration with Al Thiqah Club for the Handicapped, 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 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

The Bank would like to express its gratitude to the Chairman, Deputy Chairman and members of the Board of Directors of UAB for their guidance and direction during 2010. The guidance and direction that they have given has been invaluable in building United Arab Bank into the respected regional bank that it is.

The Bank would also like to acknowledge the support and encouragement given to the Bank by the Governor and staff of the Central Bank of the UAE and the Minister and staff in the Ministry of Finance. Their skilled and untiring efforts in steering the UAE economy and its banking and finance sector have helped to provide a stable environment within which the Bank has been able to grow.

Finally, the Bank 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.

Paul Trowbridge
Chief Executive Officer

Directors' Report

Year ended 31 December 2009

On behalf of the Board of Directors, I am pleased to present United Arab Bank financial position for the year ended 31 December 2010. The financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS).

The Bank's performance during the year under review has been strong, considering the continued economic downturn and overall general market conditions impacted by the global financial crisis that started during the last quarter of 2008. This is evidenced by a 10% increase in profit for the year.

Notwithstanding these challenges and the tough market, the Bank continued its earnings and growth momentum on a sustained basis and for the first time in our history, profit exceeded AED300 Million. A profit of AED 308.00 Million was achieved in 2010. Earnings per share increased to AED 0.31 for 2010 compared with AED 0.28 for 2009.

The Bank revisited its business strategy from the second quarter of 2010 after focusing on consolidation given the challenging market conditions for the past two years. Accordingly, the Bank diversified its portfolio by introducing new products and broadening the customer base, maintained good quality assets, improved the quality of services to Customers and strengthened existing controls. Most importantly, it ensured that the Shareholders' and Depositors' Funds were utilized for better returns. This is evidenced by the following figures:

• Total Balance Sheet footing increased by 11% from AED 6.995 Billion to AED 7.742 Billion.

• Loans & Advances increased by 16% from AED 4.773 Billion to AED 5.532 Billion.

We continued our policy of maximum coverage for loans and advances through an adequate level of provisioning in order to ensure that all doubtful loans and advances are appropriately provided for and in line with industry standards. Accordingly, net additional provisions raised for doubtful loans and advances amounted to AED 19.30 Million in 2010.

The proposed appropriations of profit for the year ended 31 December 2010 subject t0 the approval by the Central Bank are as follows:

	AED'000
Opening Balance in Retained Earnings	76,313
Balance transfer from Revaluation Reserve	1,178
Net Profit for the year	308,001
Balance available for appropriation	385,492
Transfer to Special Reserve	30,800
Transfer to Statutory Reserve	30,800
Proposed Cash dividend 16% of the Paid up Capital	159,424
Proposed Directors' remuneration	1.800
Closing Balance in Retained Earnings	162,668

After the proposed appropriation of profit, and subject to the General Assembly's, approval, total shareholders' funds will increase to AED 1.688 Billion at the end of December 2010 compared with AED1.513 Billion for 2009 after payment of dividend.

The Capital Adequacy ratio at the year end was 20.43% as against a minimum regulatory requirement of 12 %, which demonstrate sufficient capital to support future growth.

Focusing on client needs coupled with building long-lasting relationships with them continued to be the drivers of UAB's growth and success. Hence, supported by the expertise and resources of our partner and strategic shareholder, the Commercial Bank of Qatar, UAB introduced a host of strategies, new shared services, and products. The Bank launched its 'Sadara' Wealth Management Program early in the year. The first Sadara Lounge was opened in Sharjah Corniche in January 2010 with three additional lounges introduced in Sharjah, Dubai, and Fujairah branches.

The Bank also launched in 2010 its Islamic Banking Services with a wide range of Islamic services and products including Current & Savings Accounts, Investment, Commodity and Vehicle Murabaha, Islamic Credit Card, and Tawarruq. The Bank's Islamic Credit Card was carefully developed by a team of professionals with Islamic banking expertise in the wake of strong demand from customers of different income groups who wish to have a credit card that is fully compliant with the rules of Islamic Shari'ah and that offers numerous benefits, combining modern-day safety and convenience with the highest standards of security due to its chip technology which adopts the highest security levels.

To address the Customer's desires and needs, all Automated Teller Machines were replaced with new ones having more functions and facilities. A new residential Mortgage product was also launched in 2010.

Following robust retail marketing campaigns, both electronic as well as print media, the retail portfolio exceeded AED 1.00 Billion for the first time in the Bank's history. This momentum is expected to continue in 2011.

The process of centralization continued during the year in line with the Bank's policy to improve internal controls, ensure efficient and professional services to customers and to improve cost efficiency. Consequently, the Bank is in the process of centralizing corporate administration operations at the Head Office, which will be accomplished in 2011.

To cater for the needs and convenience of our Customers, and to be aligned with our expansion plans, two new branches were opened in Fujairah and Sharjah Industrial area in 2010. An additional six new branches are expected to be opened in 2011. The Bank has also started renovating its existing branches with state of art infrastructure and a unique UAB look. The Bank is also in the process of upgrading its banking software and is implementing a new core banking system in order to support continued growth and branch expansion.

The Bank remained committed to recruit UAE Nationals with the aim of developing a capable and qualified cadre of National bankers. During the year, a series of in-house and exterior training programmes were conducted in meeting this objective. At end of 2010, UAE Nationals comprised 39% of the total staff.

In conclusion, on behalf of the Board of Directors, I wish to place on record my sincere thanks to our strategic partner, the Commercial Bank of Qatar, for its continuing support and co-operation in our Alliance and to the Management and Staff of United Arab Bank. for their dedication, hard work and loyalty that is reflected in the commendable results achieved during 2010. I am confident that, with the same spirit and teamwork, strong results will be achieved in 2011.

Faisal Bin Sultan Bin Salem Al Qassimi

Chairman

25th January 2011

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 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 about 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 auditor's 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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of 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:
Naushad Anwar
Partner
Registration No. 489

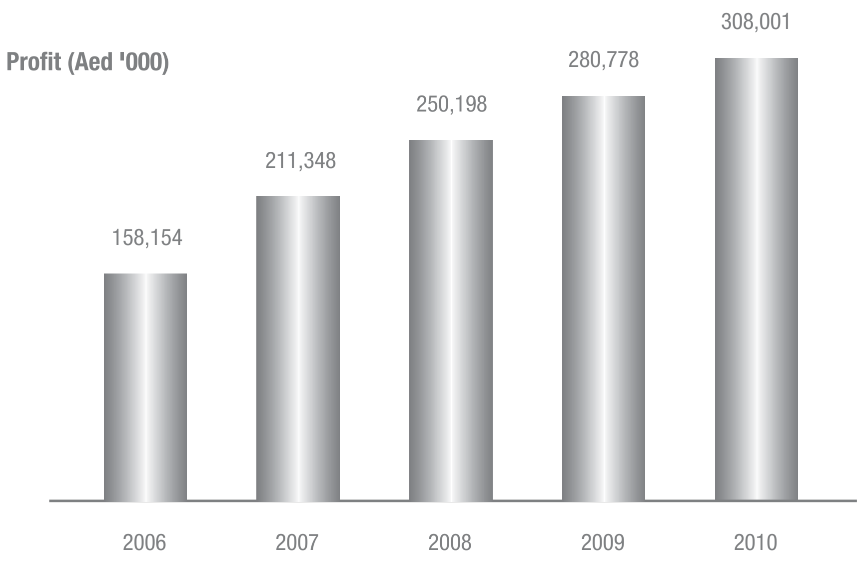
25 January 2011
Sharjah, United Arab Emirates

Financial Statements

Income Statement

Year ended 31 December 2010

	Notes	2010 AED'000	2009 AED'000
Interest and similar income	4	**412,070**	421,762
Interest and similar expenses	5	**(60,797)**	(97,300)
NET INTEREST INCOME		**351,273**	324,462
Income from Islamic financing and investing assets		**3,497**	-
Distribution to depositors		**(7,991)**	-
Net interest income and income from Islamic financing and investing assets net of distribution to depositors		**346,779**	324,462
Net fees and commission income		**70,131**	67,271
Gains less losses arising from dealing in foreign currencies		**30,561**	38,230
Other operating income	6	**42,750**	40,625
TOTAL OPERATING INCOME		**490,221**	470,588
Provision for credit losses	7	**(19,298)**	(34,496)
NET OPERATING INCOME		**470,923**	436,092
Personnel expenses		**(116,292)**	(117,093)
Depreciation on property and equipment	8	**(9,076)**	(6,207)
Other operating expenses		**(37,554)**	(32,014)
TOTAL OPERATING EXPENSES		**(162,922)**	(155,314)
PROFIT FOR THE YEAR		**308,001**	280,778
BASIC AND DILUTED EARNINGS PER SHARE	9	**AED 0.31**	AED 0.28



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

Statement of Comprehensive Income

Year ended 31 December 2010

	2010 AED'000	2009 AED'000
Profit for the year	**308,001**	280,778
Other comprehensive income		
Net unrealised gain on available for sale investments	**22,086**	42,540
Reversal of loss on sale of available for sale investments	**48**	-
Reversal of loss on redemption of available for sale investments	**6,314**	1,134
Realised gain on cash flow hedges reclassified to income statement upon disposal	**-**	(1,487)
Total comprehensive income for the year	**336,449**	322,965

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

Statement of Financial Position

At 31 December 2010

	Notes	2010 AED'000	2009 AED'000
ASSETS			
Cash and balances with UAE Central Bank	10	**383,856**	358,774
Due from banks	11	**1,206,855**	1,331,453
Loans and advances	7	**5,497,482**	4,773,497
Islamic financing and investing assets	12	**34,226**	-
Investments in debt securities	13	**511,927**	438,866
Other investments	13	**413**	443
Property and equipment	8	**73,253**	62,935
Other assets	14	**34,057**	28,959
TOTAL ASSETS		**7,742,069**	6,994,927
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Due to banks		**948,888**	748,830
Customers' deposits	15	**4,258,551**	4,448,152
Islamic customers' deposits	16	**591,615**	-
Other liabilities	17	**95,056**	135,175
TOTAL LIABILITIES		**5,894,110**	5,332,157
SHAREHOLDERS' FUNDS			
Share capital	18	**996,401**	996,401
Special reserve	18	**222,873**	192,073
Statutory reserve	18	**305,428**	274,628
Proposed cash dividend	18	**-**	149,460
General reserve	18	**9,311**	9,311
Revaluation reserve	18	**22,847**	24,025
Retained earnings		**322,092**	76,313
Cumulative changes in fair values	19	**(30,993)**	(59,441)
TOTAL SHAREHOLDERS' FUNDS		**1,847,959**	1,662,770
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**7,742,069**	6,994,927

The financial statements were approved by the Board of Directors on 25 January 2011 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 2010

	Notes	2010 AED'000	2009 AED'000
OPERATING ACTIVITIES			
Profit for the year		**308,001**	280,778
Items not involving cash flow:			
Depreciation	8	**9,076**	6,207
Provision for credit losses	7	**19,298**	34,496
Items considered separately:			
Net gain on sale of available for sale investments		**(193)**	-
Gain on disposal of property and equipment		**-**	(167)
Changes in operating assets and liabilities:			
Loans and advances		**(743,283)**	702,739
Islamic financing and investing assets		**(34,226)**	-
Due from Central Bank		**(2,310)**	7,830
Cash margin held by counterparty banks against borrowings and derivative transactions	11	**(333,564)**	-
Other assets		**(5,098)**	101,166
Due to banks maturing after ninety days		**262,400**	(417,488)
Customers' deposits	15	**(189,601)**	(521,155)
Islamic customers' deposits	16	**591,615**	-
Other liabilities	17	**(40,119)**	(14,197)
Net cash (used in) from operating activities		**(158,004)**	180,209
INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(19,394)**	(22,562)
Proceeds from disposal of property and equipment		**-**	200
Purchase of non trading investments		**(113,148)**	(48,782)
Redemption / sale of non trading investments		**68,758**	148,843
Net cash (used in) from investing activities		**(63,784)**	77,699
FINANCING ACTIVITIES			
Directors' remuneration		**(1,800)**	(1,500)
Cash dividends paid		**(149,460)**	-
Net cash used in financing activities		**(151,260)**	(1,500)
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		**(373,048)**	256,408
Cash and cash equivalents at 1 January		**825,876**	569,468
Cash and cash equivalents at 31 December		**452,828**	825,876
CASH AND CASH EQUIVALENTS:			
Cash and balances with UAE Central Bank		**69,363**	46,591
Due from banks maturing within ninety days		**873,291**	1,331,453
Due to banks maturing within ninety days		**(489,826)**	(552,168)
		452,828	825,876
Operational cash flows from interest and dividend			
Interest and profit paid		**65,821**	102,363
Interest and profit received		**407,744**	426,673

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

Statement Of Changes in Equity

At 31 December 2010

	Share capital AED'000 (Note 18a)	Special reserve AED'000 (Note 18b)	Statutory reserve AED'000 (Note 18c)	Proposed cash dividend AED'000 (Note 18d)	General reserve AED'000 (Note 18e)	Revaluation reserve AED'000 (Note 18f)	Retained earnings AED'000	Cumulative changes in fair values AED'000 (Note 21)	Total AED'000
At 1 January 2010	996,401	192,073	274,628	149,460	9,311	24,025	76,313	(59,441)	1,662,770
Profit for the year	-	-	-	-	-	-	308,001	-	308,001
Other comprehensive income for the year	-	-	-	-	-	-	-	28,448	28,448
Total comprehensive income for the year	-	-	-	-	-	-	308,001	28,448	336,449
Depreciation transfer for land and building	-	-	-	-	-	(1,178)	1,178	-	-
Dividend paid	-	-	-	(149,460)	-	-	-	-	(149,460)
Directors' remuneration	-	-	-	-	-	-	(1,800)	-	(1,800)
Transfer to special reserve	-	30,800	-	-	-	-	(30,800)	-	-
Transfer to statutory reserve	-	-	30,800	-	-	-	(30,800)	-	-
At 31 December 2010	**996,401**	**222,873**	**305,428**	**-**	**9,311**	**22,847**	**322,092**	**(30,993)**	**1,847,959**

	Share capital AED'000 (Note 18a)	Special reserve AED'000 (Note 18b)	Statutory reserve AED'000 (Note 18c)	Proposed scrip dividend AED'000	Proposed cash dividend AED'000 (Note 18d)	General reserve AED'000 (Note 18e)	Revaluation reserve AED'000 (Note 18f)	Retained earnings AED'000	Cumulative changes in fair values AED'000 (Note 19)	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.

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 twelve offices and branches in the United Arab Emirates. During the previous year the Bank obtained an approval from the Central Bank of the UAE for operating an Islamic banking window and commenced Islamic banking operations during the current year.

2 BASIS OF PREPARATION

Accounting Convention

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivative 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 for the adoption of the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010.
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- IFRIC 18 Transfer of Assets from Customers effective for financial years beginning on or after 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

Adoption of the above Standards and Interpretations did not have an impact on the financial statements of the Bank.

IASB Standards and Interpretations issued but not adopted

Standards issued but not yet effective up to the date of issuance of the bank's financial statements are listed below. This listing is of standards and interpretations issued, which the bank reasonably expects to be applicable at a future date. The bank intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

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

2 BASIS OF PREPARATION (continued)

2.1 Changes in Accounting Policy and Disclosures (continued)

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the bank on initial application.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the bank's financial assets. The bank is currently assessing the impact of adopting IFRS 9. However, as the impact of adoption depends on the assets held by the bank at the date of adoption, it is not practical to quantify the effect.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the bank.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the bank.

Improvements to IFRSs (issued in May 2010)
The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

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.

2 BASIS OF PREPARATION (continued)

2.2 Significant Management Judgements and Estimates (continued)

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, judgement is required to establish fair values. The judgements 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 25.

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 and debt securities. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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, judgement 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.

2 BASIS OF PREPARATION (continued)

2.3 Definitions

The following terms are used in the financial statements with the meaning specified:

Sharia'a
Sharia'a is the body of Islamic law and is essentially derived from The Quran and The Sunna'h.

Murabaha
Murabaha is an agreement whereby the Bank sells to a customer an asset which the Bank has purchased based on a promise received from the customer to buy the asset purchased according to specific terms and conditions. The selling price comprises the cost of the asset and an agreed profit margin.

Tawarruq
An arrangement that involves a purchase of an asset based on Musawamah (price agreed through bargaining) or Murabaha and a subsequent sale of the same asset to a third party for cash in order to gain cash money.

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

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.

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.

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.

The accounting policies adopted by the Bank relating to measurement and revenue recognition for products and its operations relating to the Islamic banking window are as below:

Murabaha
Murabaha income is recognised on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

Tawarruq
Tawarruq income is recognised on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Islamic Financing and Investing Assets

Islamic financing and investing assets consist of Murabaha and Tawarruq receivables.

Islamic financing and investing assets are stated at amortised cost less any provisions for impairment and deferred income.

Allocation of profits

Allocation of profit between the depositors and the shareholders is calculated according to the bank's standard procedures and is approved by the bank's Sharia'a Supervisory Board.

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 as "Credit Loss Expense."

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 and debt securities. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The difference between the carrying value of the original financial liability and the consideration paid 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.

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. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 25.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (expenses) 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 (expenses) 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 other comprehensive income as "cumulative changes in fair values," and the ineffective portion is recognised in the income statement. The gains or losses on cash flow hedges recognised initially in other comprehensive income 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 other comprehensive income is included in the initial measurement of the cost of the related asset or liability.

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 other comprehensive income is retained therein as "cumulative changes in fair value" until the forecasted transaction occurs. When such transaction occurs, the gain or loss retained in cumulative changes in fair values 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 cumulative changes in fair values is transferred to the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivates (continued)

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 (expenses).

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

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See Note 7 for details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment allowance on loans and advances.

(ii) Available-for-Sale Financial Investments

For available-for-sale financial investments, the Bank assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires considerable judgement. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income.

(iii) 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 continually 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

4 INTEREST AND SIMILAR INCOME

	2010 AED'000	2009 AED'000
Interest on loans and advances to customers	**386,583**	387,199
Interest on money market and inter bank transactions	**7,978**	12,644
Interest on investments	**17,509**	21,919
	412,070	421,762

5 INTEREST AND SIMILAR EXPENSES

	2010 AED'000	2009 AED'000
Interest on customer deposits	**56,760**	86,950
Interest and expenses on inter bank transactions	**4,037**	10,350
	60,797	97,300

6 OTHER OPERATING INCOME

	2010 AED'000	2009 AED'000
Charges recovered from customers	**24,105**	19,983
Other banking income	**8,709**	9,292
Income from custodial and brokerage services	**-**	4,376
Income from collections	**4,529**	3,155
Others	**5,407**	3,819
	42,750	40,625

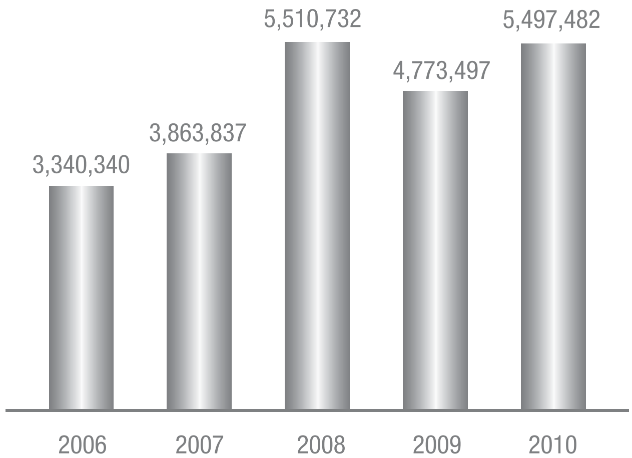
7 LOANS AND ADVANCES

	2010 AED'000	2009 AED'000
The composition of the loans and advances portfolio is as follows:		
(a) By Type:		
Overdrafts	**1,120,247**	1,024,931
Loans (medium and short term)*	**3,396,340**	2,705,282
Loans against trust receipts	**710,703**	775,273
Bills discounted	**227,688**	199,116
Other cash advances	**143,351**	185,490
Bills drawn under letters of credit	**46,445**	29,900
Gross amount of loans and advances	**5,644,774**	4,919,992
Less: Provision for impairment on loans and advances	**(136,859)**	(133,572)
Interest in suspense	**(10,433)**	(12,923)
Net loans and advances	**5,497,482**	4,773,497

*includes retail loans of AED 1,121,424,000 (2009: AED 737,999,000).

	2010 AED'000	2009 AED'000
(b) By Economic Sector		
Government and public sector	**448,587**	249,134
Trade	**1,194,509**	1,118,258
Personal loans (retail and business)	**1,727,699**	1,400,209
Manufacturing	**974,205**	1,154,377
Construction	**312,557**	424,294
Services	**138,553**	50,910
Financial institutions	**757,340**	454,268
Transport and communication	**85,602**	66,837
Agriculture	**2,149**	1,674
Others	**3,573**	31
	5,644,774	4,919,992
(c) By Classification		
Corporate	**4,523,350**	4,181,993
Retail	**1,121,424**	737,999
	5,644,774	4,919,992

Loans & Advances (AED '000)



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:

	2010		2009	
	Interest in suspense AED'000	**Impairment provisions AED'000**	Interest in suspense AED'000	Impairment provisions AED'000
Balance at 1 January	**12,923**	**133,572**	15,762	117,602
Suspended/ provided during the year	**8,948**	**45,455**	4,761	40,656
Released during the year	**(10,718)**	**(26,157)**	-	(6,160)
	(1,770)	**19,298**	4,761	34,496
Amounts written off during the year	**(720)**	**(16,011)**	(7,600)	(18,526)
Balance at 31 December	**10,433**	**136,859**	12,923	133,572

At 31 December 2010, the 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 178,854,000 (2009: AED 144,951,000).

Sector wise analysis of impaired loans and advances and related provisions is as follows:

	2010		2009	
	Gross exposure AED'000	**Specific provision and interest in suspense AED'000**	Gross exposure AED'000	Specific provision and interest in suspense AED'000
By Economic Sector				
Trade	**10,854**	**9,841**	8,188	7,936
Personal loans (retail and business)	**157,616**	**81,681**	118,275	84,347
Manufacturing	**5,020**	**2,849**	2,119	3,363
Construction	**985**	**985**	11,380	8,891
Services	**378**	**378**	-	-
Transport and communication	**3,929**	**3,928**	4,904	4,388
Agriculture	**72**	**72**	85	64
Total	**178,854**	**99,734**	144,951	108,989

The fair value of collateral that the Bank holds relating to loans to corporate customers individually determined to be impaired at 31 December 2010 amounts to AED 64,000,000 (2009: AED 41,000,000). The collateral consists of cash, securities, letters of guarantee and properties.

Collateral Repossessed

During the year, the Bank did not repossess any material amounts of collaterals.

8 PROPERTY AND EQUIPMENT

	Freehold land and buildings AED'000	Motor vehicles, furniture, fixtures and equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost or valuation:				
At 1 January 2010	32,194	50,416	16,598	99,208
Additions	-	4,684	14,710	19,394
Transfers	7,650	8,759	(16,409)	-
At 31 December 2010	**39,844**	**63,859**	**14,899**	**118,602**
Depreciation:				
At 1 January 2010	2,945	33,328	-	36,273
Charge for the year	1,526	7,550	-	9,076
At 31 December 2010	**4,471**	**40,878**	**-**	**45,349**
Net carrying value:				
At 31 December 2010	**35,373**	**22,981**	**14,899**	**73,253**

	Freehold land and buildings AED'000	Motor vehicles, furniture, fixtures and equipment AED'000	Capital work-in-progress AED'000	Total 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

The cost of freehold land included above is AED 5,224,000 (2009: AED 5,224,000).

8 PROPERTY AND EQUIPMENT (continued)

Revaluation of freehold land and buildings

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 2010 would be AED 12,522,000 (2009: 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 attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2010	2009
Profit for the year net of directors' remuneration of AED 1,800,000 (2009: AED 1,500,000)	**306,201,000**	279,278,000
Weighted average number of shares of AED 1 each outstanding during the year	**996,401,000**	996,401,000
Basic and diluted earnings per share	**AED 0.31**	AED 0.28

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

	2010 AED'000	2009 AED'000
Cash on hand	**41,871**	39,814
Balances with UAE Central Bank:		
Clearing accounts	**27,492**	6,777
Reserve requirements	**314,493**	312,183
	383,856	358,774

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 891,541,000 (2009: AED 672,761,000) placed with foreign banks outside the UAE. Out of this amount AED 312,162,000 (2009: Nil) is under lien against borrowings and AED 21,402,000 (2009: Nil) is held as margin for derivative transactions.

12 ISLAMIC FINANCING AND INVESTING ASSETS

	2010 AED'000	2009 AED'000
Murabaha	**22,855**	-
Tawarruq	**11,371**	-
	34,226	-

13 INVESTMENTS

	2010			2009		
	Quoted AED'000	**Unquoted AED'000**	**Total AED'000**	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
Held to maturity						
Local	**57,299**	**-**	**57,299**	-	-	-
Overseas	**-**	**-**	**-**	-	-	-
	57,299	**-**	**57,299**	-	-	-
Available for sale						
Local	**363,928**	**-**	**363,928**	329,941	-	329,941
Overseas	**15,700**	**75,000**	**90,700**	33,925	75,000	108,925
	379,628	**75,000**	**454,628**	363,866	75,000	438,866
Total debt securities	**436,927**	**75,000**	**511,927**	363,866	75,000	438,866
Equity:						
Available for sale						
Local	**-**	**-**	**-**	-	-	-
Overseas	**337**	**76**	**413**	367	76	443
Total equities	**337**	**76**	**413**	367	76	443
Total investments	**437,264**	**75,076**	**512,340**	364,233	75,076	439,309

14 OTHER ASSETS

	2010 AED'000	2009 AED'000
Interest receivable	**17,845**	10,022
Positive fair value of derivatives (Note 21)	**4,982**	969
Cheques awaiting clearance	**60**	162
Prepayments and other assets	**11,170**	17,806
	34,057	28,959

15 CUSTOMERS' DEPOSITS

	2010 AED'000	2009 AED'000
Term and call deposits	**2,168,235**	2,194,559
Current accounts	**2,012,275**	2,172,603
Saving accounts	**78,041**	80,990
	4,258,551	4,448,152

Deposits include AED 352,818 thousand (31 December 2009: 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 a 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 ISLAMIC CUSTOMERS' DEPOSITS

	2010 AED'000	2009 AED'000
Demand, call and short notice deposits	**10,439**	-
Time deposits	**581,176**	-
	591,615	-

17 OTHER LIABILITIES

	2010 AED'000	2009 AED'000
Interest payable	**15,647**	12,680
Staff related provisions	**41,805**	43,952
Negative fair values of derivatives (Note 21)	**5,362**	2,047
Others	**32,242**	76,496
	95,056	135,175

Staff related provisions

The aggregate employee entitlement liability comprises:

Employees' end of service benefits	**31,723**	32,703
Other liabilities	**10,082**	11,249
	41,805	43,952

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

	2010 AED'000	2009 AED'000
Liability as at 1 January	**32,703**	32,644
Expense recognised in the income statement	**3,977**	5,650
End of service benefits paid	**(4,957)**	(5,591)
Liability as at 31 December	**31,723**	32,703

18 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised, issued and fully paid up share capital of the Bank comprises 996,401,000 (2009: 996,401,000) shares of AED 1 each.

b) Special reserve

Article 82 of Federal 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.

18 SHARE CAPITAL AND RESERVES (continued)

d) Dividends

The directors have proposed a cash dividend amounting to AED 159,424,000 at AED 0.16 per share of AED 1 each (2009: cash dividend of AED 149,460,000 at AED 0.15 per share of AED 1 each). This is subject to the approval of the regulator and the shareholders at the Annual General Assembly to be held in February 2011.

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 other comprehensive income.

19 CUMULATIVE CHANGES IN FAIR VALUES

	Available for sale investments and securities AED'000	Cash flow hedges AED'000	Total AED'000
At 1 January 2010	**(59,441)**	**-**	**(59,441)**
Net unrealised gain on available for sale investments	**22,086**	**-**	**22,086**
Reversal of loss on redemption of available for sale investments	**6,314**	**-**	**6,314**
Reversal of loss on sale of available for sale investments	**48**	**-**	**48**
At 31 December 2010	**(30,993)**	**-**	**(30,993)**
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)

20 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. The significant balances outstanding at 31 December and transactions during the year with related parties were as follows:

	Maximum balance during the year 2010 AED'000	**Balance as at 31 December 2010 AED'000**	Maximum balance during the year 2009 AED'000	Balance as at 31 December 2009 AED'000
Key management				
personnel of the Bank:				
Loans and advances	**5,075**	**5,075**	4,573	4,573
Customer deposits	**6,408**	**6,054**	4,404	4,404
Shareholders:				
Due from banks	**314,319**	**312,541**	250,914	249,955
Due to banks	**147,688**	**147,293**	183,625	183,625
Directors:				
Loans and advances	**10,290**	**5,944**	25,833	16
Customer deposits	**73,667**	**31,640**	110,415	84,868
Commitments and contingencies	**293**	**146**	294	294
Other related entities:				
Loans and advances	**69,711**	**51,942**	157,286	53,113
Customer deposits	**255,404**	**192,640**	351,324	310,164
Commitments and contingencies	**349,731**	**299,019**	230,011	209,019

Shareholders, directors, their related entities and key management personnel	**2010 AED'000**	2009 AED'000
Accrued interest income	**365**	259
Accrued interest expense	**371**	-

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	**2010 AED'000**	2009 AED'000
Interest income	**6,851**	9,128
Interest expense	**6,099**	13,667
Management fees	**-**	1,502
Directors' remuneration	**1,800**	1,500

20 RELATED PARTY TRANSACTIONS (continued)

Terms and Conditions of Transactions With Related Parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2009: Nil).

Compensation of key management personnel is as follows:

	2010 AED'000	2009 AED'000
Short term benefits	**14,848**	12,780
Employees' end of service benefits	**9,125**	9,247
Total compensation as at 31 December	**23,973**	22,027

	2010	2009
Number of key management personnel	**16**	16

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 2,318,000 (2009: AED 2,045,000). The property rentals are negotiated each year at market rates.

21 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 fair values of derivative financial instruments, recorded as assets and liabilities, 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.

At 31 December 2010

				Notional amounts by term to maturity		
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount AED'000**	**Within 3 months AED'000**	**3-12 months AED'000**	**1-5 years AED'000**
Derivatives held for trading:						
Forward foreign exchange contracts	**20**	**34**	**1,289,027**	**1,103,036**	**185,991**	**-**
Foreign currency options	**4,962**	**4,962**	**367,836**	**298,438**	**69,398**	**-**
Interest rate swaps	**-**	**366**	**36,725**	**-**	**-**	**36,725**
	4,982	**5,362**	**1,693,588**	**1,401,474**	**255,389**	**36,725**

At 31 December 2009

				Notional amounts by term to maturity		
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	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

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

Over-the-counter derivatives may expose the bank to the risks associated with the absence of an exchange market on which to close out an open position.

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 25).

2 DERIVATIVES (continued)

Derivative product types

Forwards Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market .The bank has credit exposure to the counterparties of forward contracts.

Options

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

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

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 86% (2009: 72%) of the Bank's derivative contracts are entered into with other financial institutions and less than 14% (2009: 28%) of the fair value of favourable contracts is with any individual counterparty at the statement of financial position 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 and interest rate swaps are accounted for as trading instruments.

22 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.

The Bank has the following credit related commitments:

	2010	2009
	AED'000	AED'000
Contingent liabilities		
Letters of credit	542,837	471,588
Guarantees and acceptances	3,059,351	3,308,799
	3,602,188	3,780,387
Commitments		
Undrawn loan commitments	2,455,548	2,583,761

23 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 organisation, 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 operational 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 the 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 the independence of the Internal Audit function, and compliance with regulatory requirements.

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 organisation 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.

23 RISK MANAGEMENT (continued)

Introduction (continued)

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 at an early stage. This information is presented and explained to the Board of Directors, the Board Audit and 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.

Regular briefings are 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.

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.

23 RISK MANAGEMENT (continued)

Credit risk (continued)
Maximum exposure to credit risk after provision but 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 statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Notes	**Gross maximum exposure 2010 AED'000**	Gross maximum exposure 2009 AED'000
Cash and balances with UAE Central bank			
(excluding cash on hand)	10	**341,985**	318,960
Due from banks	11	**1,206,855**	1,331,453
Loans and advances (net of provisions)	7	**5,497,482**	4,773,497
Islamic financing and investment assets	12	**34,226**	-
Investments in debt securities	13	**511,927**	438,866
Other assets	14	**25,460**	18,570
Total		**7,617,935**	6,881,346
Letters of credit	22	**542,837**	471,588
Guarantees and acceptances	22	**3,059,351**	3,308,799
Undrawn loans commitments	22	**2,455,548**	2,583,761
Total		**6,057,736**	6,364,148
Total credit risk exposure		**13,675,671**	13,245,494

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 2010 was AED 250,000,000 (2009: AED 161,500,000) before taking account of collateral or other credit enhancements and AED 250,000,000 (2009: AED 161,500,000) net of such protection.

23 RISK MANAGEMENT (continued)

Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

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

	2010		2009	
	Assets AED'000	**Contingent liabilities and commitments AED'000**	Assets AED'000	Contingent liabilities and commitments AED'000
United Arab Emirates	**6,350,876**	**5,877,064**	6,033,048	6,118,043
Other Middle East countries	**869,135**	**21,364**	615,093	34,776
Europe	**346,420**	**90,449**	199,155	149,770
USA	**29,506**	**3,933**	13,709	1,229
Rest of the world	**21,998**	**64,926**	20,341	60,330
Total	**7,617,935**	**6,057,736**	6,881,346	6,364,148

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

	Gross maximum exposure 2010 AED'000	Gross maximum exposure 2009 AED'000
Financial services	**2,511,605**	2,126,780
Trade	**1,195,558**	1,118,258
Manufacturing	**974,975**	1,154,377
Government and public sector	**557,584**	496,292
Construction	**313,023**	444,194
Other services	**141,595**	50,910
Others	**2,070,887**	1,637,030
	7,765,227	7,027,841
Less: Impairment provision on loans and advances	**(147,292)**	(146,495)
	7,617,935	6,881,346

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 monitor the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitor 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.

23 RISK MANAGEMENT (continued)

Credit risk (continued)

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 statement of financial position items, based on the Bank's credit rating system.

	Neither past due nor impaired				
	High grade 2010 AED'000	**Standard grade 2010 AED'000**	**Sub-standard grade 2010 AED'000**	**Past due or individually impaired 2010 AED'000**	**Total 2010 AED'000**
Balances with UAE Central Bank	**341,985**	**-**	**-**	**-**	**341,985**
Due from banks	**1,106,642**	**100,213**	**-**	**-**	**1,206,855**
Investments	**399,459**	**112,468**	**-**	**-**	**511,927**
Loans and advances (Gross)	**2,140,666**	**3,179,375**	**37,648**	**287,085**	**5,644,774**
Islamic financing and Investing assets	**34,226**	**-**	**-**	**-**	**34,226**
	4,022,978	**3,392,056**	**37,648**	**287,085**	**7,739,767**

	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
Balances with UAE Central Bank	318,960	-	-	-	318,960
Due from banks	814,525	516,928	-	-	1,331,453
Investments	48,977	389,889	-	-	438,866
Loans and advances (Gross)	1,687,048	2,834,959	107,325	290,660	4,919,992
	2,869,510	3,741,776	107,325	290,660	7,009,271

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.

23 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 2010	Historical default rates 2009	Total 2010 AED'000	Total 2009 AED'000
High grade					
Risk rating class 1	Aaa	**-**	-	**1,056,219**	674,545
Risk rating class 2	Aa1-A3	**0.25%**	0.25%	**2,991,807**	2,378,854
Standard grade					
Risk rating class 3	Ba1	**0.50%**	0.50%	**1,705,860**	2,367,545
Risk rating class 4	Ba2-Ba3	**1.25%**	1.25%	**764,383**	747,618
Retail		**2.50%**	2.50%	**922,226**	620,696
Sub Standard grade					
Risk rating class 5A	B3	**3.00%**	3.00%	**56,781**	89,348
Risk rating class 5B	Caa-C	**5.00%**	5.00%	**89,097**	4,284
Impaired					
Risk rating class 6,7 & 8	D			**178,854**	144,951
				7,765,227	7,027,841
Less: Impairment provision and interest in suspense on loans and advances				**(147,292)**	(146,495)
				7,617,935	6,881,346

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.

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

	Less than 30 days 2010 AED'000	31 to 60 days 2010 AED'000	60 to 90 days 2010 AED'000	More than 91 Days 2010 AED'000	Total 2010 AED'000
Loans and advances	**74,142**	**16,649**	**6,190**	**11,250**	**108,231**

	Less than 30 days 2009 AED'000	31 to 60 days 2009 AED'000	60 to 90 days 2009 AED'000	More than 91 Days 2009 AED'000	Total 2009 AED'000
Loans and advances	91,026	15,370	9,191	30,122	145,709

The fair value of the collateral that the Bank held at 31 December 2010 for past due but not impaired loans and advances to customers covers approximately 36% (2009: 28%) of the outstanding balance.

23 RISK MANAGEMENT (continued)

Credit risk (continued)

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

	2010 AED'000	2009 AED'000
Loans and advances	**212,837**	137,196

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 have 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% of current deposits and 1% of 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:

	2010	2009
Advances to Stable Resources Ratio	**86.3%**	83.8%
Net Liquid Assets to Customer Deposits Ratio	**23.7%**	30.9%
Capital Adequacy Ratio	**20.4%**	18.9%

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.

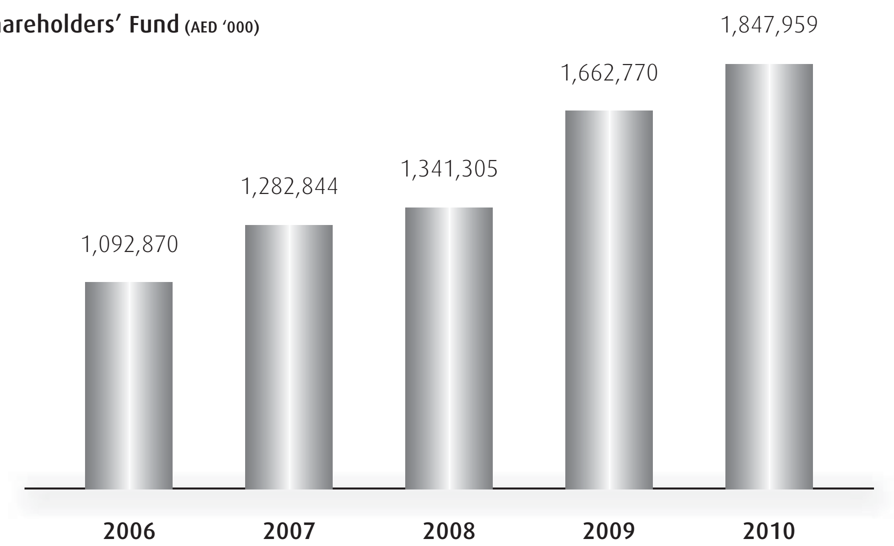
23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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 2010 is as follows:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Sub total over 12 months AED'000	Undated AED'000	Total AED'000
ASSETS									
Cash and balances with UAE Central Bank	383,856	-	-	383,856	-	-	-	-	383,856
Due from banks	1,206,855	-	-	1,206,855	-	-	-	-	1,206,855
Loans and advances (Gross)	2,370,220	765,282	511,036	3,646,538	1,759,399	238,837	1,998,236	-	5,644,774
Islamic financing and investment assets	49	-	40	89	18,477	15,660	34,137	-	34,226
Investments	68,045	-	11,385	79,430	432,497	-	432,497	413	512,340
Property and equipment	-	-	-	-	-	-	-	73,253	73,253
Other assets	34,057	-	-	34,057	-	-	-	-	34,057
Provision for impairment of loans and advances and interest in suspense	(147,292)	-	-	(147,292)	-	-	-	-	(147,292)
Sub total	**3,915,790**	**765,282**	**522,461**	**5,203,533**	**2,210,373**	**254,497**	**2,464,870**	**73,666**	**7,742,069**
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	489,826	146,900	-	636,726	312,162	-	312,162	-	948,888
Customer deposits	3,131,423	225,267	493,494	3,850,184	408,367	-	408,367	-	4,258,551
Islamic customers' deposit	112,589	469,057	9,969	591,615	-	-	-	-	591,615
Other liabilities	63,333	-	-	63,333	-	-	-	31,723	95,056
Shareholders' funds	-	-	-	-	-	-	-	1,847,959	1,847,959
Sub total	**3,797,171**	**841,224**	**503,463**	**5,141,858**	**720,529**	**-**	**720,529**	**1,879,682**	**7,742,069**
Net liquidity gap	**118,619**	**(75,942)**	**18,998**	**61,675**	**1,489,844**	**254,497**	**1,744,341**	**(1,806,016)**	**-**

Shareholders' Fund (AED '000)



23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2009 was as follows:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Sub total over 12 months AED'000	Undated AED'000	Total 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 (Gross)	2,160,688	663,279	497,498	3,321,465	1,400,514	198,013	1,598,527	-	4,919,992
Islamic financing and investment assets	-	-	18,317	18,317	420,549	-	420,549	443	439,309
Investments	-	-	-	-	-	-	-	62,935	62,935
Property and equipment	28,959	-	-	28,959	-	-	-	-	28,959
Other assets		-	-	-					
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)	-

23 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 2010 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 2010	**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	**19,729**	**471,095**	**148,461**	**328,083**	**-**	**967,368**
Customer deposits	**2,124,224**	**1,010,724**	**731,339**	**442,669**	**-**	**4,308,956**
Islamic customers' deposits	**10,439**	**102,508**	**487,409**	**-**	**-**	**600,356**
Other liabilities	**49,166**	**14,167**	**31,723**	**-**	**-**	**95,056**
Financial derivatives	**-**	**59**	**221**	**422**	**-**	**702**
Total undiscounted financial liabilities	**2,203,558**	**1,598,553**	**1,399,153**	**771,174**	**-**	**5,972,438**

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

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 2010	**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	**-**	**14**	**85**	**196**	**-**	**295**
Outflows	**-**	**(59)**	**(221)**	**(422)**	**-**	**(702)**
Net	**-**	**(45)**	**(136)**	**(226)**	**-**	**(407)**
Discounted at applicable interbank rates	**-**	**(45)**	**(135)**	**(223)**	**-**	**(403)**

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

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)

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

	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**
2010						
Contingent liabilities	**-**	**2,465,770**	**977,552**	**158,866**	**-**	**3,602,188**
Commitments	**2,455,548**	**-**	**-**	**-**	**-**	**2,455,548**
Total	**2,455,548**	**2,465,770**	**977,552**	**158,866**	**-**	**6,057,736**
2009						
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

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.

23 RISK MANAGEMENT (continued)

Interest rate risk (continued)

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 2010, including the effect of hedging instruments.

	2010		2009	
Currency	**Change in basis points**	**Sensitivity of net interest income AED'000**	**Change in basis points**	**Sensitivity of net interest income AED'000**
All currencies	+25	**8,742**	+25	8,950
All currencies	-25	**(8,742)**	-25	(8,950)

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 floating rate 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.

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2010 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 % 2010**	**Effect on profit 2010 AED'000**	Change in currency rate in % 2009	Effect on profit 2009 AED'000
Euro	+10	**3**	+10	5
GBP	+10	**2**	+10	(13)

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.

24 SEGMENTAL ANALYSIS

Primary segment information

For management purposes the Bank is organised into four 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 as well as 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.
Islamic Banking	-	principally offering Islamic loans and deposit products for both corporate and retail customers.

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.

No income from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total income in 2010 or 2009.

24 SEGMENTAL ANALYSIS (continued)

Primary segment information (continued)

Segmental information for the year ended 31 December 2010 was as follows:

	Retail banking AED'000	Corporate banking AED'000	Treasury AED'000	Islamic banking AED '000	Inter-segment adjustments AED'000	Total AED'000
Interest and other income	**89,663**	**361,665**	**104,010**	**8,847**	**(5,176)**	**559,009**
Interest and other expense	**(34,512)**	**(170,133)**	**(13,240)**	**(9,925)**	**5,176**	**(222,634)**
Impairment losses on loans and advances	**(10,051)**	**(9,247)**	**-**	**-**	**-**	**(19,298)**
Depreciation	**(1,225)**	**(5,310)**	**(2,501)**	**(40)**	**-**	**(9,076)**
Profit for the year	**43,875**	**176,975**	**88,269**	**(1,118)**	**-**	**308,001**
Segment assets	**1,044,153**	**4,529,006**	**2,134,213**	**601,697**	**(567,000)**	**7,742,069**
Segment liabilities	**1,540,590**	**2,786,622**	**1,532,996**	**600,902**	**(567,000)**	**5,894,110**
Other segment information						
Capital expenditure						
- Property and equipment	**2,616**	**11,348**	**5,343**	**87**	**-**	**19,394**

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
Interest and other expense	(9,192)	(198,616)	(38,599)	(246,407)
Impairment losses on loans and advances	(27,153)	(7,343)	-	(34,496)
Depreciation	(644)	(3,648)	(1,915)	(6,207)
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

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.

25 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.

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 2010				
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	-	20	-	20
Currency options	-	4,962	-	4,962
	-	4,982	-	4,982
Financial investments available for-sale				
Quoted investments				
Government debt securities	90,250	-	-	90,250
Other debt securities	322,177	24,500	-	346,677
Equities	337	-	-	337
Unquoted investments				
Other debt securities	-	-	75,000	75,000
Equities	-	-	76	76
	412,764	24,500	75,076	512,340
	412,764	29,482	75,076	517,322

Financial liabilities

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Derivative financial instruments				
Interest rate swaps	-	366	-	366
Forward foreign exchange contracts	-	34	-	34
Currency options	-	4,962	-	4,962
	-	5,362	-	5,362

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	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	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	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.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial instruments recorded at fair value (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 2010

	At 1 January 2010 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 2010 AED'000**
Financial assets							
Financial investments available for-sale:							
Unquoted investments	**75,076**	**-**	**-**	**-**	**-**	**-**	**75,076**
Total level 3 financial assets	**75,076**	**-**	**-**	**-**	**-**	**-**	**75,076**

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

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial instruments recorded at fair value (continued)

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. (2009: Nil)

Transfer between level 1 and level 2
During the previous 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 2008 to level 2 as it ceased to be actively traded during the previous year. The fair value during the previous year was based on valuation techniques using observable market inputs. No such transfers have happened during the current year.

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 2010	
	Carrying amount AED'000	**Effect of reasonably possible alternative assumptions AED'000**
Financial investments available-for-sale	**75,000**	**7,500**

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

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 did not have a material exposure for the years 2009 and 2010 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.

26 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.

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.

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	
	2010 AED'000	2009 AED'000	**2010 AED'000**	2009 AED'000
Assets				
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	**41,871**	39,814	**-**	-
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	**1,519,090**	1,559,077	**303,818**	311,815
Claims secured by mortgage of residential property	**635,323**	604,964	**635,323**	604,964
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%	**1,285,231**	1,094,210	**-**	-
Claims at 20%	**60**	162	**12**	32
Claims at 50%	**19,503**	15,115	**9,752**	7,558
Claims at 100%	**4,240,991**	3,681,585	**4,240,991**	3,681,585
	7,742,069	6,994,927		
Off balance sheet items				
Credit commitments and contingent items (note 22)	**6,057,736**	6,364,148	**2,248,445**	2,569,339
Derivatives (note 21)	**1,693,588**	1,182,154	**1,802**	3,197
Credit risk weighted assets and off balance sheet items			**7,440,143**	7,178,490
Market risk weighted assets and off balance sheet items			**-**	-
Total risk weighted assets			**7,440,143**	7,178,490
Risk asset ratio			**20.4%**	18.9%

26 CAPITAL ADEQUACY (continued)

Capital management (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.

27 COMPARATIVE INFORMATION

Balances with the Central Bank of the UAE in reserve accounts as at 31 December 2009 which were earlier classified as “cash and cash equivalents” have now been reclassified as part of the “operating activities” in the statement of cash flows. This has been done to conform to the current year’s presentation and classification and accordingly has no impact on the previously reported profit or shareholders’ equity.

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 are in conformity with Basel II capital adequacy calculations for 31st December 2010 prepared in terms of the Circular.

References have been made to Audited Financial Statements for additional details only, where considered relevant. The amounts in a few such cases may not exactly agree due to minor differences in the basis of presentation.

These disclosures pertain to operations of United Arab Bank only. The Bank has no investments in subsidiaries or other significant investments at the end of the year.

A. CAPITAL STRUCTURE

(AED 000's)

Category	Summarised terms & conditions and main features	Amount
Tier 1 Capital		
1. Paid up share capital	Ordinary Shares of AED 1 each	996,401
2. Reserves		
a. Statutory reserve (incl. Share Premium)	Under Article 192 of UAE Commercial Companies Law No 8 of 1984	274,629
b. Special reserve	Under Article 82 of Union Law No. 10 of 1980	192,073
c. General reserve	As per Shareholders' resolutions on recommendation of Board	9,311
d. Retained Earnings/(Loss)	Before transfer of Net Profit and appropriations for the year	77,491
Tier 1 Capital - Subtotal		**1,549,905**
Tier 2 capital		
Revaluation Reserve	Revaluation reserve on Bank's property assets	22,847
Cumulative changes in fair values	Unrealised loss on available-for-sale investments	(30,993)
Less: Deductions for inadmissible items	Revaluation reserve on Bank's property assets	(22,847)
Tier 2 Capital - Subtotal		**(30,993)**
Tier 3 capital		**-**
Total eligible capital after deductions - Capital Base		**1,518,912**

B. CAPITAL ADEQUACY

a) Qualitative Disclosures

United Arab Bank has adopted Standardized Approach for computation of Credit and Market Risks and Basic Indicator Approach for Operational Risks, in terms of guidelines for implementation of Basel II capital accord issued by the Central Bank of the UAE under Circular No. 27/2009 dated 17th November 2009.

Risk Management objectives and policies

The Bank has an established Group Risk Department headed by the Chief Risk Officer (CRO). This Department is responsible for managing all the three risk segments, namely, Credit, Market and Operational risks. The Bank has also created the Board Audit and Risk Committee (BARC), which approves the Bank's policies on all audit and risk issues and provides oversight of the Audit, Risk and Compliance functions of the Bank. These steps ensure that the risk management framework has a solid foundation and is able to address all relevant risks in a co-ordinated and well structured manner.

- 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 main components of Bank's Market risk are interest rate, foreign exchange, and equity price risks.

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 Bank's Treasury Department manages this risk through monitoring of such gaps on a regular basis.

Fluctuations in exchange rates for different currencies are a source of Foreign Exchange Risk. The Board has established limits on the open Foreign Exchange positions in order to manage such risks. These Forex Positions are monitored on a daily basis and hedging strategies are used by the Treasury Department to ensure that positions are maintained within the established limits.

Equity Price risks arises due to fluctuations in prices of Bank's equity holdings. Such risks are avoided by keeping exposures at very low levels, besides regular monitoring of the prices.

In addition to the above safeguards, market risks are also reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO), and corrective measures taken where considered necessary.

- 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 training and assessment processes, including the use of Internal Audit.

B. CAPITAL ADEQUACY (continued)

b) Quantitative Disclosures

Capital Requirements

In terms of Circular No. 27/2009 dated 17th November 2009 issued by the Central Bank of the UAE, minimum capital requirement is 12% of Risk Weighted Assets. Computation of the Bank's actual Capital Adequacy Ratio is as follows:

		(AED 000's)
Category	**Risk Weighted Assets**	**Capital**
1. Credit Risk - Standardised Approach	7,356,103	
2. Market Risk - Standardised Approach	400	
3. Operational Risk - Basic Indicator Approach	693,480	
Total Risk Weighted Assets	8,049,983	
Capital Base		1,518,912
Capital Adequacy Ratio (%)		
a. Total for the Bank		**18.9%**
b. Tier 1 ratio only for the Bank		**19.3%**

C. CREDIT RISK - UNDER STANDARDIZED APPROACH

1. Details of Exposures, Risk Mitigants and Risk Weighted Assets

(AED 000's)

Category	**On Balance Sheet Exposures** (Gross outstandings)	**Off Balance Sheet Exposures** (Net after Credit Conversion Factor - CCF)	**Exposure before Credit Risk Mitigants***	**Credit Risk Mitigants**	**Exposure after Credit Risk Mitigants**	**Risk Weighted Assets**
Claims On Sovereigns	742,585	-	742,585	-	742,585	-
Claims On Non-Central Govt Public Sector Entities (PSEs)	229,855	-	229,855	-	229,855	1,460
Claims On Multi Lateral Development Banks	-	-	-	-	-	-
Claims On Banks	1,372,215	167,825	1,540,040	-	1,540,040	444,869
Claims On Securities Firms	-	-	-	-	-	-
Claims On Corporates	3,582,956	2,376,901	5,935,355	423,015	5,512,340	5,311,627
Claims Included In The Regulatory Retail Portfolio	949,320	-	926,523	-	926,523	715,998
Claims Secured By Residential Property	-	-	-	-	-	-
Claims Secured By Commercial Real Estate	671,280	-	671,280	-	671,280	671,280
Past Due Loans	191,546	-	91,553	-	91,553	108,404
Higher-Risk Categories	-	-	-	-	-	-
Other Assets	144,384	-	144,384	-	144,384	102,465
Claims On Securitised Assets	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-
TOTAL	**7,884,141**	**2,544,726**	**10,281,575**	**423,015**	**9,858,560**	**7,356,103**

*Net of Provisions and Interest in Suspense amounting to AED 147,292 (Thousands)

C. CREDIT RISK - UNDER STANDARDIZED APPROACH (continued)

2. Gross Exposure under Standardized Approach based on External Ratings

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)
	Exposure before Credit Risk Mitigants (CRM)		
Category	**Rated**	**Unrated**	**Total**
Claims On Sovereigns	742,585	-	742,585
Claims On Non-Central Govt Public Sector Entities (PSEs)	229,855	-	229,855
Claims On Multi Lateral Development Banks		-	-
Claims On Banks	1,521,675	18,365	1,540,040
Claims On Securities Firms	-	-	
Claims On Corporates	232,767	5,702,588	5,935,355
Claims Included In The Regulatory Retail Portfolio		926,523	926,523
Claims Secured By Residential Property		-	-
Claims Secured By Commercial Real Estate		671,280	671,280
Past Due Loans		91,553	91,553
Higher-Risk Categories		-	-
Other Assets		144,384	144,384
Claims On Securitised Assets		-	-
Credit Derivatives (Banks Selling Protection)			-
TOTAL	**2,726,882**	**7,554,693**	**10,281,575**

3. Exposures by Currency Type

The Bank's exposures are mainly in local currency, hence, risk of exposures in foreign currency is minimal. For details kindly refer to Note 23 "Risk Management - Currency Risk" of Notes to the Financial Statements at 31st December 2010.

4. Exposures by Geographical Region

The Bank has branches only in the UAE, hence, its exposures are mainly within the country. For details kindly refer to Note 23 "Risk Management - Credit Risk" of Notes to the Financial Statements at 31st December 2010.

C. CREDIT RISK - UNDER STANDARDIZED APPROACH (continued)

5. Exposures by Economic Sector

Exposures to difference economic sectors are governed by sectoral limits set by the UAE Central Bank, as well as by Bank's own policies. Hence, the exposures are well diversified over different economic sectors. For details kindly refer to Note 23 "Risk Management - Credit Risk" of Notes to the Financial Statements at 31st December 2010.

6. Exposures by Residual Contractual Maturity

For details kindly refer to Note 23 "Risk Management - Liquidity Risk" of Notes to the Financial Statements at 31st December 2010.

7. Past Due and Impaired Loans

a) Qualitative Disclosures

Definition of past due and impaired

Past due accounts are those where the obligations are not met on the due date.

A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset, and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include: (a) indications that the borrower or a group of borrowers is experiencing significant financial difficulty, (b) the probability that they will enter bankruptcy or other financial reorganisation, (c) default or delinquency in interest or principal payments (d) conduct of the account not being in line with the Central Bank of UAE guidelines, (e) where observable data indicates that there is a measurable decrease in the estimated future cash flows, and (f) where the entity is in arrears or facing economic conditions that correlate with defaults.

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 (International Accounting Standards) requirements
- on Retail accounts provisions are made as given below:

- Substandard accounts	30%	of the total net of end of service benefits (EOSB)
- Doubtful accounts	70%	
- Loss accounts	100%	

General

- on Corporate accounts general provision is calculated on cash outstandings based on risk rating of the performing accounts' portfolio
- on Retail accounts general provision is calculated at 2.50% on the performing accounts' portfolio

C. CREDIT RISK - UNDER STANDARDIZED APPROACH (continued)

7. Past Due and Impaired Loans (continued)

b) Quantitative

- Past due & impaired Loans by Industry Segment **(AED 000's)**

	--------Past due but not impaired----------					
Industry Segment	**0-30 days past due**	**30-60 days past due**	**60-90 days past due**	**Over 90 days past due**	**Impaired Loans**	**Provisions & Interest in Suspense**
Agriculture, Livestock and Fishery	-	-	-	-	72	72
Extractive Industries	-	-	-	-	-	-
Manufacturing Industries	5,265	-	-	-	5,020	2,849
Electricity, Gas and Water	-	-	-	-	-	-
Construction	131	-	-	1,061	985	985
Wholesale / Retail Trade	149	391	-	-	10,854	9,841
Restaurants and Hotels	-	-	-	-	378	378
Transportation, Storage & Communication	-	-	-	-	3,929	3,928
Real Estate and Business Services	-	-	-	-	-	-
Social and Private Services	-	-	-	-	-	-
Financial Services Sector	-	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	69,050	16,310	7,048	106,257	157,616	81,681
Collective impairment provisions						47,558
Total	**74,595**	**16,701**	**7,048**	**107,318**	**178,854**	**147,292**

- Past due & impaired Loans by Geographical Region **(AED 000's)**

	--------Past due but not impaired----------					
Geographic Region	**0-30 days past due**	**30-60 days past due**	**60-90 days past due**	**Over 90 days past due**	**Impaired Loans**	**Provisions & Interest in Suspense**
United Arab Emirates	74,595	16,701	7,048	107,318	178,854	147,292
Total	**74,595**	**16,701**	**7,048**	**107,318**	**178,854**	**147,292**

- 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 2010.

C. CREDIT RISK - UNDER STANDARDIZED APPROACH (continued)

8. 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 credit-worthiness 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.

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, stock inventories and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

The Bank monitors the market value of collaterals, and requests additional collateral in accordance with the underlying agreement. It also monitors the market value of collaterals acquired, 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	10,281,575	-
Less: Exposure covered by on-balance sheet netting	423,015	
Net Exposures after Credit Risk Mitigation	**9,858,560**	**7,356,103**

Note: In addition the Bank had Guarantees against Credit exposures, which enabled shift from higher to lower risk categories. These amounted to AED 210,606 (thousands), and have been considered in computation of Risk Weighted Assets

D. MARKET RISK - UNDER STANDARDISED APPROACH

1. Capital required against Market Risks and equivalent Risk Weighted Assets **(AED 000's)**

Category of Risk	**Capital required**	**Risk Weighted Assets equivalent**
Interest rate risk	-	
Equity position risk	-	
Foreign exchange risk	40	
Commodity risk	-	
Options risk	-	
Total	**40**	**400**

D. MARKET RISK - UNDER STANDARDISED APPROACH (continued)

2. Interest Rate Risk

The Bank has no Interest Rate Risk on Trading Book, hence, Capital required is nil. For details concerning Interest Rate Risk on Banking Book, kindly refer to Note 23 "Risk Management - Market Risk - Interest Rate Risk" of Notes to the Financial Statements at 31st December 2010.

3. Equity Position Risk

The Bank has no Equity Position on Trading Book, hence, Capital required is nil. However, there are a few investments in Banking book under available-for-sale category. For details please refer to Note 13 "Investments" of Notes to the Financial Statements at 31st December 2010.

4. Foreign Exchange Risk

The amount shown in (1) above, represents Foreign Exchange Risk on both banking and trading books. Since AED is pegged to USD, positions in USD and other GCC currencies pegged to USD are excluded.

5. Options risk

The Bank's exposures in Options bought and sold are perfectly matched, hence, there is no capital charge on such positions.

6. Revaluation Gains/(Losses) during the year

The Bank accounts for changes in fair values of Available-for-sale investments (both debt and equity) and cash flow hedges through Equity reported under Shareholders' Funds. Details of such changes are given in Note 19 "Cumulative changes in fair values" of Notes to the Financial Statements at 31st December 2010.

Gains/(losses) due to changes in fair values added to / (deducted from) from Tier 1 / Tier 2 Capital are as follows:

	(AED 000's) Amount
Amount added to / (deducted from) in Tier 1 capital	-
Amount added to / (deducted from) in Tier 2 capital	(30,993)
Total	**(30,993)**

E. OPERATIONAL RISK - UNDER BASIC INDICATOR APPROACH

Computation of Capital Charge and Risk Weighted Assets equivalent for Operational Risks is as follows at 31st December 2010:

		(AED 000's) Amount	
Gross Income (including Interest in suspense)	2008	423,169	
	2009	475,349	
	2010	488,451	
		1,386,969	
3-year average		462,323	
Beta factor		15%	
Capital charge			69,348
Risk Weighted Assets equivalent			**693,480**