

INVEST BANK P.S.C.

Financial statements
31 December 2009

Registered office

Al Borj Avenue
P O Box 1885 - Sharjah
United Arab Emirates

INVEST BANK P.S.C.

Financial statements
31 December 2009

<i>Contents</i>	<i>Page</i>
Board of directors' report	1-2
Independent auditors' report	3
Statement of financial position	4
Income statement and statement of comprehensive income	5-6
Statement of changes in equity	7
Cash flow statement	8
Notes	9-54



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVEST BANK P.S.C.

We have audited the accompanying financial statements of Invest Bank PSC ("the Bank"), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income (comprising a separate income statement and a statement of comprehensive income), statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

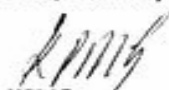
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Bank and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements

As required by the Federal Law No.8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Bank and the contents of the board of directors' report which relate to these financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2009, which may have had a material adverse effect on the business of the Bank or its financial position.


KPMG
Vijendra Nath Malhotra
Registration No. 48B
21 January 2010

Investbank P.S.C.
Statement of financial position
at 31 December 2009

	<i>Note</i>	2009 AED'000	2008 AED'000
Assets			
Cash and deposits with the UAE Central Bank	<i>8</i>	1,031,024	528,918
Due from other banks	<i>9</i>	1,385,636	1,048,665
Customers' indebtedness for acceptances	<i>26</i>	286,552	325,779
Loans and advances to customers	<i>4(b)</i>	6,388,863	6,623,784
Investment securities	<i>10</i>	462,345	487,084
Property and equipment	<i>11</i>	41,506	44,772
Other assets	<i>12</i>	76,426	80,015
Total assets		<u>9,672,352</u>	<u>9,139,017</u>
Liabilities			
Deposits from other banks	<i>13</i>	297,654	209,208
Deposits from customers	<i>14</i>	7,062,738	6,954,540
Liabilities under acceptances	<i>26</i>	286,552	325,779
Other liabilities	<i>15</i>	148,869	105,025
Total liabilities		<u>7,795,813</u>	<u>7,594,552</u>
Equity			
Share capital	<i>16</i>	1,155,000	1,100,000
Legal reserve	<i>16</i>	235,193	206,341
Special reserve	<i>16</i>	235,193	206,341
Revaluation reserve	<i>10</i>	20,170	(23,387)
Retained earnings		230,983	55,170
Total equity		<u>1,876,539</u>	<u>1,544,465</u>
Total liabilities and equity		<u>9,672,352</u>	<u>9,139,017</u>

The notes on pages 9 to 54 are an integral part of these financial statements.

These financial statements were approved and authorized for issue by the Board of Directors on 21 January 2010 and signed on its behalf by:


 General Manager


 Director

The independent auditors' report is set out on page 3.

Investbank P.S.C.

Income statement

for the year ended 31 December 2009

	<i>Note</i>	2009 AED'000	2008 AED'000
Operating income			
Interest income	17	589,433	490,729
Interest expense	17	(254,431)	(186,768)
Net interest income	17	335,002	303,961
Net fees and commission income	18	97,231	91,534
		432,233	395,495
Net income from dealing in foreign currencies		21,789	24,245
Net gains/(losses) from investment securities	10	36,952	(13,966)
Other operating income	19	4,772	45,697
Total operating income		495,746	451,471
Operating expenses			
General and administrative expenses	20	(91,297)	(84,682)
Impairment losses on available-for-sale investments		(28,719)	(327,404)
Specific impairment provision on loans and advances, net	4(b)	(75,908)	(23,708)
Portfolio impairment provision	4(b)	(2,576)	(2,342)
Provision for other expenses	21	(8,729)	(8,631)
Total operating expenses		(207,229)	(446,767)
Net profit for the year		288,517	4,704
Earnings per share (UAE Dirhams)	23	0.250	0.004

The notes on pages 9 to 54 are an integral part of these financial statements.

The independent auditors' report is set out on page 3.

Investbank P.S.C.
Statement of comprehensive income
for the year ended 31 December 2009

	2009	2008
	AED'000	AED'000
Net profit for the year	288,517	4,704
Other comprehensive income:		
Directors' remuneration	-	(1,200)
Revaluation reserve on available-for-sale investments transferred to income statement on disposal of investments	(22,893)	(9,181)
Impairment losses on available-for-sale investments transferred to income statement	28,719	327,404
Change in fair value of available-for-sale investments, net	37,731	(384,927)
Total comprehensive income / (loss) for the year	332,074	(63,200)

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Investbank P.S.C.

Statement of changes in equity

for the year ended 31 December 2009

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Revaluation reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2008	1,000,000	205,871	205,871	43,317	252,606	1,707,665
Transactions with owners, reorded directly in equity						
Issue of bonus shares	100,000	-	-	-	(100,000)	-
Cash dividend paid					(100,000)	(100,000)
Transfer to reserve		470	470		(940)	-
	<u>100,000</u>	<u>470</u>	<u>470</u>	<u>-</u>	<u>(200,940)</u>	<u>(100,000)</u>
Total comprehensive income for the period	-			(66,704)	3,504	(63,200)
At 31 December 2008	<u>1,100,000</u>	<u>206,341</u>	<u>206,341</u>	<u>(23,387)</u>	<u>55,170</u>	<u>1,544,465</u>
At 1 January 2009	1,100,000	206,341	206,341	(23,387)	55,170	1,544,465
Transactions with owners, reorded directly in equity						
Issue of bonus shares	55,000	-	-	-	(55,000)	-
Cash dividend paid	-	-	-	-	-	-
Transfer to reserve		28,852	28,852		(57,704)	-
	<u>55,000</u>	<u>28,852</u>	<u>28,852</u>	<u>-</u>	<u>(112,704)</u>	<u>-</u>
Total comprehensive income for the period	-			43,557	288,517	332,074
At 31 December 2009	<u>1,155,000</u>	<u>235,193</u>	<u>235,193</u>	<u>20,170</u>	<u>230,983</u>	<u>1,876,539</u>

The notes on pages 9 to 54 are an integral part of these financial statements.

The independent auditors' report is set out on page 3.

Investbank P.S.C.

Cash flow statement

for the year ended 31 December 2009

	<i>Note</i>	2009	2008
		AED'000	AED'000
Cash flows from operating activities			
Net profit for the year		288,517	4,704
<i>Adjustments for:</i>			
Depreciation		6,957	6,901
Dividend income		(5,731)	(5,966)
Net (gains) /losses from investment securities		(36,952)	13,966
Net losses/(gains) from revaluation of investment property		3,710	(34,410)
Impairment losses on available-for-sale investments		28,719	327,404
Net impairment provisions		78,484	26,050
		363,704	338,649
Time deposits with other banks and certificates of deposit of the UAE Central Bank maturing after three months		(475,000)	760,000
Change in time deposits from other banks maturing after three months		-	(183,550)
Change in loans and advances to customers		156,437	(2,181,825)
Change in other assets		(121)	4,786
Change in deposits from customers		108,198	1,847,248
Change in other liabilities		43,844	(18,929)
<i>Net cash generated from operating activities</i>		197,062	566,379
Cash flows from investing activities			
Purchase of property and equipment, net		(3,691)	(4,832)
Purchase of investment securities		(275,661)	(633,488)
Proceeds from sale of investment securities		352,190	136,108
Dividends received		5,731	5,966
<i>Net cash generated/(used in) from investing activities</i>		78,569	(496,246)
Cash flows from financing activities			
Cash dividend paid		-	(100,000)
Directors' remuneration paid		-	(1,200)
<i>Net cash used in financing activities</i>		-	(101,200)
Net increase /(decrease) in cash and cash equivalents		275,631	(31,067)
Cash and cash equivalents at 1 January		1,368,375	1,399,442
Cash and cash equivalents at 31 December	<i>24</i>	1,644,006	1,368,375

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The independent auditors' report is set out on page 3.

Investbank P.S.C.

Notes

(forming part of the financial statements)

1 Legal status and activities

Investbank P.S.C. ('Invest Bank' or "the Bank") is a public shareholding company with limited liability and was incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered office of the Bank is at Al Borj avenue, P.O.Box 1885, Sharjah, United Arab Emirates ("UAE")

The principal activity of Invest Bank is to provide corporate and retail banking services within the UAE. The Bank is also involved in investment activities. Invest Bank operates through branches located in Sharjah, Abu Dhabi, Al Ain, Dubai, Ajman, Ras Al Khaimah and Fujairah. The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

2 Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with guidelines of the UAE Central Bank and the International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for the following financial instruments and investment property which are stated at fair value.

- Derivative financial instruments;
- Financial instruments at fair value through profit or loss; and
- Available-for-sale financial assets.

c) Functional and presentation currency

These financial statements have been presented using UAE dirham ("AED"), which is the Bank's functional currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

d) Use of estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 6.

Investbank P.S.C.

Notes *(continued)*

(forming part of the financial statements)

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. In addition, during the year the Bank has adopted IAS 1 'Preparation of financial statements' (Revised 2007); IFRS 8 'Operating segments' and amendments to IFRS 7 for the first time in preparation of these financial statements. These new and revised IFRS and IASs respectively, which became applicable for annual periods beginning on or after 1 January 2009, affects the presentation and disclosure of these financial statements and do not affect the Bank's reported profit or loss or equity.

IAS-1 - Presentation of financial statements (Revised 2007)

The revised IAS introduces the term 'total comprehensive income' which represents changes in equity during a period other than those resulting from transactions with owners in their capacity as owners. As a result, all owner changes in equity are presented in statement of equity, whereas all non-owner changes in equity are presented in statement of comprehensive income. The Bank has applied the revised IAS 1 retrospectively and has adopted two statement approach to present comprehensive income that is income statement and a separate statement of comprehensive income. Further the revised IAS 1 has also changed the title of 'balance sheet' to 'statement of financial position'.

IFRS 8 - Operating segments

The Bank has presented the segment information in respect of its business and geographical segments, since the same information is provided internally to the executive committee which is the Bank's chief operating decision maker.

Amendments to IFRS 7

In March 2009, the IASB issued "Improving disclosures about financial instruments- Amendment to IFRS 7 Financial Instruments: disclosures". The amendment require disclosure to financial instruments measured at fair value to be based on a three level fair value hierarchy that reflects the significance of inputs in such fair value measurements. Specific disclosures are required when fair value measurement are categorized as Level 3 (significant unobservable inputs) in the fair vale hierarchy. The amendment requires that any significant transfers between Level 1 and Level 2 of the fair value hierarchy to be disclosed separately, distinguishing between tranfer into and out of each level. Furthermore, changes into valuation techniques from one period to another, including the reasons thereof, are required to be disclosed for each class of financial instruments. These disclosures are included in note 10.

BASEL II Pillar 3 disclosures

Along with these financial statements, during the year the Bank has prepared BASEL II Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank of UAE ("the Central Bank"). The adoption of BASEL II Pillar 3 guidelines impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Bank. In accordance with the requirement of BASEL II, the Bank has provided full comparative information.

a) Interest income and expense

Interest income and interest expense are recognised in income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates the future cash flows considering all contractual terms in the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Investbank P.S.C.

Notes *(continued)*

3 Summary of significant accounting policies *(continued)*

a) Interest income and expense *(continued)*

Interest income and expense presented in the statement of income include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate.
- interest on available-for-sale investment securities calculated on an effective interest basis.
- the effective portion of fair value changes in qualifying, hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that hedged cash flows affect interest income/expense.
- fair value changes in the qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from investments.

Fair value changes on the other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of income.

b) Fees and commission income

Fees and commission income are generally recognized on an accruals basis when the related services are performed by the Bank. Fee and commission expenses are expensed as the related services are received.

c) Dividend income

Dividend income is recognized in the income statement when the Bank's right to receive income is established. Usually this is the ex-dividend date for equity securities.

Investbank P.S.C.

Notes *(continued)*

(forming part of the financial statements)

3 Summary of significant accounting policies (continued)

d) Financial assets and liabilities

i) Classification

The Bank classifies financial assets in the following categories: financial assets at fair value through profit or loss, loans and advances, held to maturity, and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial asset are designated at fair value through profit or loss in the following circumstances:

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

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in any market. They arise when the Bank provides funds directly to a debtor with no intention of trading in the loan. Loans and advances are initially measured at fair value and subsequently measured at their amortised cost less impairment losses, if any.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

Available-for-sale assets

Available-for-sale financial assets are non-derivative investments that are not designated in any another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Investbank P.S.C.

Notes (continued)

3 Summary of significant accounting policies (continued)

d) Financial assets and liabilities (continued)

ii) Recognition

The Bank recognizes loans and advances and deposits on the date that they are originated. All other financial assets and liabilities are recognized initially on the trade date on which the Bank becomes a party to the contractual provisions of the instrument.

iii) Derecognition

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

The Bank derecognizes the financial liability when its contractual obligations are discharged or cancelled or expired.

iv) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs/IASs, or of gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

vi) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

When a market for a financial instrument is not active, the Bank establishes fair value using valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instrument that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

Investbank P.S.C.

Notes (continued)

3 Summary of significant accounting policies (continued)

d) Financial assets and liabilities (continued)

vi) Fair value measurement principles (continued)

The Bank measures the fair value using the following fair value hierarchy that reflects the significance of input used in making these measurement.

Level 1: A fair value measurement for a financial instrument is classified in level 1 of the fair value hierarchy if the fair value is determined as the unadjusted quoted price for an identical instrument in an active market.

Level 2: A fair value measurement determined using observable inputs other than unadjusted quoted prices for an identical instruments, and that does not use significant unobservable inputs, is classified in level 2 of the fair value hierarchy.

Level 3: If a fair value measurement uses significant unobservable inputs, including using observable inputs that require significant adjustments based on unobservable inputs, then the resulting fair value measurement is classified in level 3 of the fair value hierarchy.

vii) Derivative financial instruments

The Bank uses derivative financial instruments primarily to satisfy the requirements of its customers. Derivatives held for internal risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position and all changes in their fair value are recognized immediately in income statement.

viii) Measurement of financial instruments

The Bank measures all financial instruments including derivative financial instruments initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of those financial instruments except financial assets and liabilities at fair value through profit or loss.

Subsequent to initial recognition, all financial assets at fair value through profit or loss, derivative financial instruments and investments available-for-sale are carried at their fair value. All other financial instruments are measured at amortized cost less impairment losses, if any.

ix) Gains and losses on subsequent measurement

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

x) Impairment of financial assets

Financial assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Bank considers evidence of impairment for loans and advances and held to maturity investments at both a specific and a collective level.

Specific level

At each balance sheet date, the Bank assesses on a case-by-case basis whether there is any objective evidence that a asset is impaired. Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Collective level

Impairment is determined on a collective basis for two different scenarios:

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified. - for homogeneous groups of loans that are not considered individually significant.

Investbank P.S.C.

Notes (continued)

3 Summary of significant accounting policies (continued)

d) Financial assets and liabilities (continued)

x) Impairment of financial assets(continued)

Impairment losses are recognised in the income statement and reflected in an allowance for impairment.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for loan impairment in the income statement.

Assets carried at fair value - Available-for-sale investment

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, impairment loss is recognized.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to income statement as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in income statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the income statement and is recognised in other comprehensive income.

e) Foreign currency transactions

The accounting records of the Bank are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to UAE Dirhams at the spot foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign currency differences arising on re-translation are recognised in profit or loss, except for differences arising on the re-translation of available-for-sale equity instruments, which are recognised directly in other comprehensive income.

f) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Investbank P.S.C.

Notes (continued)

3 Summary of significant accounting policies (continued)

f) Property and equipment (continued)

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

Depreciation is recognized in the income statement on a straight line basis over the estimated useful lives of assets as follows:

Buildings	20
Office installations and improvements	10
Office furniture and equipment	2 to 5
Motor vehicles	3

Depreciation methods, useful lives and residual values are reassessed at the reporting date. No depreciation is charged on freehold land and capital-work-in-progress. Depreciation methods, useful lives and residual values are reassessed at the reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

g) Investment Property

Investment Property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Bank holds some investment property acquired through the enforcement of security over loans and advances. Investment property is measured at fair value with any change therein recognized in the income statement.

h) Staff terminal benefits

Staff benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. On the termination of employment, expatriate employees are entitled to receive end of service benefits in accordance with the UAE labour law. The Bank accrues for its liability in this respect based on the liability that would arise under the UAE labour law if the employment of all staff were terminated at the reporting date, which is not expected to be materially different to that computed in accordance with IFRS.

The Bank contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Bank's contributions are charged to the statement of income in the period to which they relate. In respect of this scheme, the Bank has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

i) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows to reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

j) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

k) Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Investbank P.S.C.

Notes (continued)

3 Summary of significant accounting policies (continued)

l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with the Central Bank of the UAE, amounts due from other banks and deposits from other banks maturing within three months from the balance sheet date.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

m) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except when the Bank chooses to carry the loans and advances at fair value through profit or loss.

n) Dividend on ordinary shares

Dividends payable on ordinary shares are recognized as a liability in the period in which they are approved by the Bank's shareholders.

o) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

p) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the statement of income on a straight-line basis over the term of the lease.

q) Impairment of non financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The reduction in value is recognised in the income statement.

r) Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the Executive Committee of the Bank to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

s) Directors remuneration

In accordance with the Ministry of Economy and Commerce Interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), directors' remuneration of the Bank has been treated as an appropriation from equity and recognized under other comprehensive income.

Investbank P.S.C.

Notes (continued)

3 Summary of significant accounting policies (continued)

t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for accounting period starting 1 January 2009, and have not been early adopted in preparing these financial statements:

- IFRS-3:(Revised): Business Combination (effective 1 July 2009);
- Amendments to IAS- Financial Instruments recognition and measurement (effective 1st July 2009);
39 :
- IFRIC-17: Distribution of Non-cash Assets to Owners (effective:1 July 2009)
- IFRS 5 amendments: Non-current Assets Held for Sale and Discontinued Operations (effective 1 July 2009)
- IFRS 1(Revised): First Time Adoption of International Financial Reporting Standards (effective 1 July 2009 and 1 January 2010);
- IFRS 2 amendments: Share-based payment: (effective 1 January 2010);
- IAS-27 : (Amended) Consolidated and Separate Financial Statements (effective 1 July 2009);
- Amendments to IAS- 32 : Financial Instruments: Presentation (effective 1 February 2010);
- IFRIC-19: Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010);
- IAS-24 (Revised): Related Party Disclosures (effective 1 January 2011);
- Amendments to IFRIC 14 IAS-19 : The limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective 1 January 2011); and
- IFRS 9: Financial Instruments (effective 1 January 2013)

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Bank or their impact is limited to the disclosures and presentation requirement in the financial statements except for IFRS 9 as stated below.

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39, key features of IFRS 9 are:

- IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.
- The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.
- The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

The Bank is currently in the process of evaluating the potential effect of this standard. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

Investbank P.S.C.

Notes (continued)

4 Financial Risk Management

a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Legal and Compliance risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, risk management frameworks, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors (the Board or board or BOD) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank has established a Board level Executive Committee, Asset and Liability Committee (ALCO) and Audit Committee.

The risk management policies are in place to identify and analyze the risks faced by the Bank, define "risk appetite" and "risk tolerance" levels, set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered and present a comprehensive view of risk from a strategic and operational perspective and have a process to address risks proactively and promote capturing of opportunities.

The Bank has initiated the process of upgrading its risk management to embrace an enterprise risk management (ERM) framework and, to manage the business by integrating concepts of strategic planning, operations management, internal control; which include methods and process, encompassing all risk dimensions to seize the opportunities related to the achievement of the Bank's objectives and to address the needs of all stakeholders.

b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers, other banks and investment securities.

For risk management purposes, credit risk arising on trading securities is managed independently under the directives from the Board by a committee, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated some of the responsibilities of the management of credit risk to its Executive Committee (EC) and Credit Committee. A separate and centralized credit risk management division ("CRMD") is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements and recommending the credit policies for Board approval.

Investbank P.S.C.

Notes *(continued)*

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

- *Establishing the authorization structure* for the approval and renewal of credit facilities. The Board has delegated limited approval authorities (discretionary limits) to the credit committees. Changes to discretionary limits are subject to Board approval. Similarly, facilities in excess of discretionary limits are approved by the EC or the Board of Directors.

- *Reviewing and assessing credit risk* in accordance with authorization structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

- *Developing and maintaining the Bank's risk grading* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigants. This risk grading is being refined and enhanced to develop and customize risk ratings (internal ratings) for Basel-II compliance (FRB approach) with the objective of levying risk premium, where appropriate, particularly in respect of counter party financial institutions the Bank uses external rating such as Standard and Poor's or other recognized credit rating agencies in order to manage its credit risk exposure.

- *Reviewing compliance* on an ongoing basis with agreed exposure limits relating to counterparties, industries and countries. Regular reports are provided to the management, executive committee and the Board of Directors on the quality of portfolios and appropriate corrective action is initiated.

- *Limiting concentrations of credit exposure* to counterparties and industries (for loans and advances) by establishing exposure caps and monitoring sectoral exposures. Preferred sectors are identified regularly in line with market dynamics. Accordingly marketing initiatives are directed either to expand or efforts are focussed for reduction to balance risk / reward trade offs.

- *Settlement limits and usage of a clearing agent* to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Exposure to credit risk

The Bank measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any.

	Loans and advances		Due from banks		Debt securities	
	2009 AED'000	2008 AED'000	2009 AED'000	2008 AED'000	2009 AED'000	2008 AED'000
Carrying amount, net	6,388,863	6,623,784	1,385,636	1,048,665	249,147	249,147
Individually impaired*						
Substandard	134,484	124,622	-	-	-	-
Doubtful	84,609	145,478	-	-	-	-
Legal and loss	492,755	348,860	-	-	-	-
Gross amount	711,848	618,960	-	-	-	-
Interest suspended	(232,722)	(192,355)	-	-	-	-
Specific allowance for impairment	(373,752)	(314,026)	-	-	-	-
Carrying Amount	105,374	112,579	-	-	-	-
Past due but not impaired (overdue by more than 90 days)*						
	114,182	110,379	-	-	-	-
	114,182	110,379	-	-	-	-
Neither past due nor impaired						
Standard	6,092,239	6,368,975	1,385,636	1,048,665	249,147	249,147
Accounts with renegotiated terms	111,180	63,387	-	-	-	-
	6,203,419	6,432,362	1,385,636	1,048,665	249,147	249,147
Total non-impaired portfolio	6,317,601	6,542,741	1,385,636	1,048,665	249,147	249,147
Collective allowance for impairment	(34,112)	(31,536)	-	-	-	-
Carrying amount	6,283,489	6,511,205	1,385,636	1,048,665	249,147	249,147
Carrying amount	6,388,863	6,623,784	1,385,636	1,048,665	249,147	249,147

* The Bank has a defined policy for delinquency, monitoring and controlling such delinquent accounts, in line with Central Bank and Basel II prescriptions.

Impaired loans and advances

Impaired loans and advances are financial assets for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are classified as substandard, doubtful, legal and loss, as appropriate, which is in accordance with the guidelines issued by the UAE Central Bank.

Investbank P.S.C.

Notes *(continued)*

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is inappropriate on the basis of a genuine repayment source and/or delays in receiving assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to a deterioration in the borrower's financial/circumstantial position and where the Bank has made some concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance thereafter.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate for incurring losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Bank writes off loans/securities (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and there is no scope to pursue any other avenues.

However, in the event there are future chances for recovery where the Bank believes there are merits in keeping the account open, the debit is written down with a nominal balance of AED 10 to keep the account open for tracking purposes.

Collateral and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of cash margins, pledges/ liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Bank accepts guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organizations, large corporates and high networth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are updated during annual reviews. Generally, collateral is not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity. Collateral is not usually held against investment securities, and at the reporting date no such collateral was held.

It is the Bank's policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below.

		2009 AED'000	2008 AED'000
Against neither past due nor impaired			
Cash		1,468,589	1,535,108
Commercial and industrial property		1,650,698	1,458,713
Residential property		-	1,321
Equities		134,812	192,536
Other		474,221	432,405
	1	<u>3,728,320</u>	<u>3,620,083</u>
Against past due but not impaired			
Cash		32,256	28,900
Commercial and industrial property		63,279	46,258
Equities		-	27,191
Other		18,647	8,030
	2	<u>114,182</u>	<u>110,379</u>
Against impaired			
Cash		11,640	15,850
Commercial and industrial property		11,950	12,850
Equities		2,580	2,603
Other		5,639	8,172
	3	<u>31,808</u>	<u>39,475</u>
Total collateral held	1+2+3	<u>3,874,310</u>	<u>3,769,937</u>

Collateral values reflect the maximum exposure or the value of the collateral whichever is lower. Actual pledged values in most cases are higher.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Concentration of Credit Risk

The Bank monitors internally concentrations of credit risk by sector and geographical location. An analysis of concentrations of credit risk as defined by the Bank's internal approved guidelines at the reporting date is shown below (all figures in AED'000):

	Loans and advances		Due from banks		Debt securities	
	2009	2008	2009	2008	2009	2008
Carrying value, net	6,388,863	6,623,784	1,385,636	1,048,665	249,147	249,147
Concentration by sector:						
Sovereign	923,917	403,574	-	-	174,100	174,100
Construction	1,167,458	1,488,943	-	-	-	-
Trade	1,205,115	1,250,858	-	-	-	-
Real estate and real estate trading	1,025,411	1,134,976	-	-	70,022	70,022
Manufacturing	802,539	895,922	-	-	5,025	5,025
Services	676,897	669,977	-	-	-	-
Investments	581,468	593,278	-	-	-	-
Banks and financial institutions	231,673	262,706	1,385,636	1,048,665	-	-
Transport and communication	97,811	103,128	-	-	-	-
Retail	83,127	90,919	-	-	-	-
Agriculture	-	-	-	-	-	-
Others	234,033	267,420	-	-	-	-
Gross total	7,029,449	7,161,701	1,385,636	1,048,665	249,147	249,147
Concentration by location:						
United Arab Emirates	7,025,628	7,155,228	1,334,466	923,769	249,147	249,147
Other G.C.C.	3,002	4,735	7,863	55,970	-	-
Other Arab countries	819	927	4,952	4,077	-	-
Western Europe	-	811	37,540	64,633	-	-
Australia	-	-	815	216	-	-
Gross total	7,029,449	7,161,701	1,385,636	1,048,665	249,147	249,147

All loans and advances are with variable rates.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

In accordance with the disclosure requirement of BASEL II Pillar 3 concentrations of credit risk by industry segment and currency are as follows. (All figures in AED'000):

Gross credit exposure by industry segment (as defined by the Central Bank of the UAE)

Industry Segment	Loans and advances		Debt Securities		Total	
	2009	2008	2009	2008	2009	2008
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining and Quarrying	220,245	244,025	-	-	220,245	244,025
Manufacturing	863,859	961,878	5,000	5,000	863,859	966,878
Electricity and Water	183	194	-	-	183	194
Construction	1,907,545	2,327,503	70,047	70,047	1,907,545	2,397,550
Trade	1,215,108	1,266,384	-	-	1,215,108	1,266,384
Transport, Storage and Communication	97,811	103,128	-	-	97,811	103,128
Financial Institutions	231,673	262,956	-	-	231,673	262,956
Services	695,581	705,321	-	-	695,581	705,321
Government	923,917	403,574	174,100	174,100	923,917	577,674
Retail/ Consumer banking	83,483	90,919	-	-	83,483	90,919
All Others	790,044	795,818	-	-	790,044	795,818
Total	7,029,449	7,161,700	249,147	249,147	7,278,596	7,410,847

Gross credit exposure by currency

	Loans and advances		Debt Securities		Total	
	2009	2008	2009	2008	2009	2008
Foreign currency	464,484	458,366	-	-	464,484	458,366
AED	6,564,965	6,703,334	249,147	249,147	6,814,112	6,952,481
Total	7,029,449	7,161,700	249,147	249,147	7,278,596	7,410,847

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Impaired loans and advances by industry segment and geographical location at 31 December 2009, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues		Provisions	Adjustments	Adjustments	Total impaired assets
	90 days and above	Total	Specific	Write - offs	Write - backs	
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining	-	-	-	-	-	-
Manufacturing	60,728	60,728	44,254	608	-	16,474
Electricity and Water	-	-	-	-	-	-
Construction	510,933	510,933	432,196	245	550	78,737
Trade	97,816	97,816	93,014	14,674	560	4,802
Transport, Storage and Communication	774	774	760	-	-	14
Financial Institutions	902	902	902	-	834	-
Services	13,424	13,424	10,980	-	-	2,444
Government	-	-	-	-	-	-
Retail/ Consumer banking	12,157	12,157	11,948	-	-	209
All Others	15,114	15,114	12,420	654	1,595	2,694
Total	711,848	711,848	606,474	16,181	3,539	105,374
Concentration by Geography						
United Arab Emirates	710,110	710,110	604,954	16,181	3,539	105,156
Non UAE	1,738	1,738	1,520	-	-	218
Total	711,848	711,848	606,474	16,181	3,539	105,374

Impaired loans and advances by industry segment at 31 December 2008, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues		Provisions	Adjustments	Adjustments	Total impaired assets
	90 days and above	Total	Specific	Write - offs	Write - backs	
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining	-	-	-	19,370	-	-
Manufacturing	58,178	58,178	26,293	-	4,594	31,885
Electricity and Water	-	-	-	-	-	-
Construction	428,900	428,900	358,080	-	6,958	70,820
Trade	100,545	100,545	92,367	1,010	5,101	8,178
Transport, Storage and Communication	693	693	680	-	-	13
Financial Institutions	812	812	812	-	-	-
Services	10,685	10,685	9,851	-	6,104	834
Government	-	-	-	-	-	-
Retail/ Consumer banking	11,420	11,420	10,964	-	-	456
All Others	7,727	7,727	7,334	11,101	1,763	393
Total	618,960	618,960	506,381	31,481	24,520	112,579
Concentration by Geography:						
United Arab Emirates	617,385	617,385	505,173	31,481	24,520	112,212
Non UAE	1,575	1,575	1,208	-	-	367
Total	618,960	618,960	506,381	31,481	24,520	112,579

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

At reporting date the Bank do not have any impaired loans overdues less than 90 days. At 31 December 2009 the collective impairment provision is AED 34.1 Million (2008: AED 31.5 million)

Analysis of the Bank's exposure at 31 December 2009 based on BASEL II standardised approach is as follows (all figures in AED 000):

Asset classes	<u>On balance sheet</u>	<u>Off balance sheet</u>	<u>Credit risk mitigation (CRM)</u>			<u>Risk weighted assets</u>
	Gross outstanding	Net exposure after credit conversion factor	Exposure before CRM	CRM	After CRM	
Claims on sovereign	1,926,204	4,601	1,930,805	-	1,930,805	-
Claims on (PSEs)	146,352	-	146,352	-	146,352	-
Claims on banks	1,329,294	38,821	1,367,696	-	1,367,696	302,022
Claims on securities firm	54,657	-	54,657	35,000	19,657	19,657
Claims on corporates	4,652,039	2,295,372	6,932,206	1,690,402	5,241,804	5,379,896
Claims included in retail portfolio	52,482	1,246	53,728	2,771	50,957	38,220
Claims secured by residential property	-	-	-	-	-	-
Claims secured by commercial real estate	594,726	-	594,726	8,144	586,582	586,582
Past due loans	826,030	133,400	371,242	37,617	333,625	400,644
High risk categories	119,182	-	118,338	-	118,338	177,507
Other assets	330,401	-	326,044	-	326,044	224,674
	10,031,367	2,473,440	11,895,794	1,773,934	10,121,860	7,129,203

Analysis of the Bank's exposure at 31 December 2008 based on BASEL II standardised approach is as follows (all figures in AED 000):

Asset classes	<u>On balance sheet</u>	<u>Off balance sheet</u>	<u>Credit risk mitigation (CRM)</u>			<u>Risk weighted assets</u>
	Gross outstanding	Net exposure after credit conversion factor	Exposure before CRM	CRM	After CRM	
Claims on sovereign	997,603	1,772	999,375	-	999,375	-
Claims on (PSEs)	52,775	-	52,775	-	52,775	-
Claims on banks	981,324	8,654	989,978	49	989,929	271,091
Claims on securities firm	54,946	-	54,946	35,000	19,946	19,946
Claims on corporates	5,440,104	2,498,639	7,953,529	1,719,246	6,234,283	6,537,214
Claims included in retail portfolio	56,797	1,086	57,778	1,773	56,005	42,007
Claims secured by residential property	1,030	-	1,030	-	1,030	361
Claims secured by commercial real estate	550,612	-	550,612	14,687	535,925	535,925
Past due loans	729,339	34,028	243,627	19,304	224,323	311,994
High risk categories	84,756	-	82,229	-	82,229	123,344
Other assets	408,953	-	404,397	-	404,397	294,821
	9,358,239	2,544,179	11,390,276	1,790,059	9,600,217	8,136,702

Investbank P.S.C.

Notes *(continued)*

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Summary of exposure and credit risk mitigation at reporting date (all figures in AED 000):

	Exposure		Risk Weighted Assets	
	2009 =====	2008 =====	2009 =====	2008 =====
Gross exposure prior to credit risk mitigation	11,895,794	11,390,276	7,268,339	8,020,657
Less: exposure covered by on balance sheet netting	-	-	-	-
Less: exposure covered by eligible financial collateral	1,512,484	1,579,909	12,221	13,246
Less: exposure covered by guarantees	261,450	210,150	126,915	102,799
Less: exposure covered credit derivatives	-	-	-	-
Net exposure after credit risk mitigation	10,121,860	9,600,217	7,129,203	8,136,702

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Analysis of the Bank's exposure at 31 December 2009 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

Gross Credit Exposures

Asset classes	Rated	Unrated	Total	Post CRM	Risk weighted assets
Claims on Sovereigns	-	1,926,204	1,926,204	1,926,204	-
Claims on PSE	-	146,352	146,352	146,352	-
Claims on securities firms	-	54,657	54,657	54,657	19,657
Claims on Banks	1,329,294	-	1,329,294	1,328,875	283,783
Claims on Corporate	-	4,652,039	4,652,039	4,636,833	3,757,227
Regulatory and other retail exposure	-	52,482	52,482	35,461	37,285
Residential retail exposure	-	-	-	-	-
Commercial Real Estate	-	594,726	594,726	594,726	586,582
Other assets	-	329,752	329,752	326,044	224,674
	1,329,294	7,756,212	9,085,506	9,049,152	4,909,208

Analysis of the Bank's exposure at 31 December 2008 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

Gross Credit Exposures

Asset classes	Rated	Unrated	Total	Post CRM	Risk weighted assets
Claims on Sovereigns	-	997,603	997,603	997,603	-
Claims on PSE	-	52,775	52,775	52,775	-
Claims-securities firms	-	54,946	54,946	54,946	19,946
Claims on Banks	981,324	-	981,324	981,325	268,432
Claims on Corporate	-	5,513,439	5,513,439	5,454,891	4,555,175
Regulatory and other retail exposure	-	56,797	56,797	56,692	41,192
Residential retail exposure	-	1,030	1,030	1,030	361
Commercial Real Estate	-	550,612	550,612	550,612	535,925
Other assets	-	408,953	408,953	404,397	404,397
	981,324	7,636,155	8,617,479	8,554,271	5,825,428

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

The Bank continues to carry classified doubtful debts and delinquent accounts on its books even after making allowances for impairment in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement ("IAS 39"). However, interest is accrued on doubtful and legal accounts for litigation purposes only and accordingly interest is not taken to income. Such accruals increase gross loans and advances receivable. Loans and advances are written off only when all legal and other avenues for recovery or settlement are exhausted.

The movement during the year in the impairment provision and interest in suspense was as follows:

	Portfolio basis		Specific basis	
	2009	2008	2009	2008
	AED'000	AED'000	AED'000	AED'000
At 1 January	31,536	29,194	506,381	477,929
Charge for the year	2,576	2,342	79,447	48,228
Recoveries during the year	-	-	(3,539)	(24,520)
Interest not recognized in the income statement (net)	-	-	40,366	36,225
Amounts written off during the year	-	-	(16,181)	(31,481)
	<u>34,112</u>	<u>31,536</u>	<u>606,474</u>	<u>506,381</u>

c) Liquidity Risk

Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. Liquidity risk can be segregated into two broad categories :

1) Funding Liquidity Risk is the risk that the Bank will encounter difficulty in funding the increases in assets and meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets, without incurring unacceptable losses.

2) Market liquidity risk is the risk that the Bank cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

Management of liquidity risk

Following the international economic crisis, liquidity risk management has remained at the helm of risk management and is also receiving the close attention of the Board of Directors.

The Bank's approach to managing liquidity is to ensure that management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Bank maintains a portfolio of short term liquid assets, largely made up of Central Bank certificate of deposits ("CDs"), short-term liquid trading investments and inter-bank placements. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets (i.e., total assets by maturity against total liabilities by maturity) and its loans to deposit ratio.

Details of the Bank's net liquid assets are summarised in the table below by the maturity profile of the Bank's assets and liabilities based on the contractual repayments and does not take account of the effective maturities as indicated by the Bank's deposit retention history. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

c) Liquidity Risk (continued)

Maturities of assets and liabilities

	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 year AED'000	Total AED'000
At 31 December 2009				
Assets				
Cash and deposits with the UAE Central Bank	556,024	475,000	-	1,031,024
Due from other banks	1,385,636	-	-	1,385,636
Loans and advances to customers	1,522,128	2,346,820	2,519,915	6,388,863
Customers' indebtedness for acceptances	224,565	54,231	7,756	286,552
Investment securities	95,995	117,203	249,147	462,345
Property and equipment	8,059	8,425	25,022	41,506
Other assets	25,220	10,560	40,646	76,426
	-----	-----	-----	-----
Total assets	3,817,627	3,012,239	2,842,486	9,672,352
	=====	=====	=====	=====
Liabilities and equity				
Deposits from other banks	297,654	-	-	297,654
Deposits from customers	4,882,119	1,760,497	420,122	7,062,738
Liabilities under acceptances	224,565	54,231	7,756	286,552
Other liabilities	86,189	62,681	-	148,869
Equity	173,700	20,170	1,682,669	1,876,539
	-----	-----	-----	-----
Total liabilities and equity	5,664,227	1,897,579	2,110,547	9,672,352
	=====	=====	=====	=====
At 31 December 2008				
Assets				
Cash and deposits with the UAE Central Bank	528,918	-	-	528,918
Due from other banks	1,048,665	-	-	1,048,665
Loans and advances to customers	1,111,018	2,497,651	3,015,115	6,623,784
Customers' indebtedness for acceptances	234,456	86,750	4,573	325,779
Investment securities	157,638	80,299	249,147	487,084
Property and equipment	4,398	8,330	32,044	44,772
Other assets	4,491	10,125	65,399	80,015
	-----	-----	-----	-----
Total assets	3,089,584	2,683,155	3,366,278	9,139,017
	=====	=====	=====	=====
Liabilities and equity				
Deposits from other banks	209,208	-	-	209,208
Deposits from customers	4,910,169	1,581,182	463,189	6,954,540
Liabilities under acceptances	234,456	86,750	4,573	325,779
Other liabilities	56,037	48,988	-	105,025
Equity	-	(23,387)	1,567,852	1,544,465
	-----	-----	-----	-----
Total liabilities and equity	5,409,870	1,693,533	2,035,614	9,139,017
	=====	=====	=====	=====

Maturities of assets and liabilities have been determined on the basis of the outstanding period from the reporting date to the contracted or expected maturity dates.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

c) Liquidity Risk (continued)

Residual contractual maturity of financial assets and liabilities

The following table shows the undiscounted cash flows on the Bank's financial assets and liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flow on these instruments may vary significantly from this analysis, for example demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognized loan commitments are not all expected to be drawn down immediately.

2009	Carrying amount AED'000	Gross nominal inflow / (outflow) AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative assets					
Cash and deposits with the UAE Central Bank	1,031,024	1,031,632	556,087	475,545	-
Due from other banks	1,385,636	1,386,673	1,386,673	-	-
Loans and advances to customers	6,388,863	6,917,860	1,648,160	2,546,300	2,723,400
Customers' indebtedness for acceptances	286,552	286,552	224,565	54,231	7,756
Investment securities	462,345	497,185	95,995	142,230	258,960
Other assets	76,426	76,426	25,220	10,560	40,646
Derivative assets					
Trading: outflow	-	-	-	-	-
Trading: inflow	-	6,747	6,747	-	-
Total assets	9,630,846	10,203,075	3,943,447	3,228,866	3,030,762
Non-derivative liabilities					
Deposits from banks	297,654	(297,736)	(297,736)		-
Deposits from customers	7,062,738	(7,321,940)	(4,999,290)	(1,885,778)	(436,872)
Liabilities under acceptances	286,552	(286,552)	(224,565)	(54,231)	(7,756)
Other liabilities	148,869	(148,869)	(86,188)	(62,681)	-
Derivative liabilities					
Trading: outflow	-	(6,747)	(6,747)	-	-
Trading: inflow	-	-	-	-	-
Total liabilities	7,795,813	(8,061,844)	(5,614,526)	(2,002,690)	(444,628)
Unrecognised loan commitments	-	(1,475,791)	(560,800)	(546,580)	(368,411)

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

c) Liquidity Risk (continued)

Residual contractual maturity of financial assets and liabilities

2008	Carrying amount AED'000	Gross nominal inflow / (outflow) AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative assets					
Cash and deposits with the UAE Central Bank	528,918	529,553	529,553	-	-
Due from other banks	1,048,665	1,054,161	1,054,161	-	-
Loans and advances to customers	6,623,784	7,236,984	1,132,238	2,653,060	3,451,686
Customers' indebtedness for acceptances	325,779	325,779	234,456	86,750	4,573
Investment securities	487,084	544,242	157,717	92,919	293,606
Other assets	80,015	80,015	4,491	10,125	65,399
Derivative assets					
Trading: outflow	-	-	-	-	-
Trading: inflow	-	12,353	12,353	-	-
Total assets	9,094,245	9,783,087	3,124,969	2,842,854	3,815,264
Non-derivative liabilities					
Deposits from banks	209,208	(209,320)	(209,320)	-	-
Deposits from customers	6,954,540	(7,065,894)	(4,956,901)	(1,597,334)	(511,659)
Liabilities under acceptances	325,779	(325,779)	(234,456)	(86,750)	(4,573)
Other liabilities	105,025	(105,025)	(56,037)	(48,988)	-
Derivative liabilities					
Trading: outflow	-	(12,353)	(12,353)	-	-
Trading: inflow	-	-	-	-	-
Total liabilities	7,594,552	(7,718,371)	(5,469,067)	(1,733,072)	(516,232)
Unrecognised loan commitments	-	(1,056,500)	(476,400)	(422,300)	(157,800)

d) Market Risk

Market Risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

d) Market Risk (continued)

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

Assets and liabilities repricing profile

	Effective Interest rate %	Less than 3 months	3 months to 1 year	1 to 5 year	Non-interest bearing	Total
		AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and deposits with the UAE						
Central Bank	0.95	200,000	475,000	-	356,024	1,031,024
Due from other banks	0.67	1,385,636	-	-	-	1,385,636
Loans and advances to customers						
Customers' indebtedness for acceptances	8.23	1,522,128	2,346,820	2,519,915	-	6,388,863
Investment securities	1.87	-	-	7,756	-	286,552
Property and equipment	-	-	-	249,147	213,198	462,345
Other assets	-	-	-	-	41,506	41,506
					76,426	76,426
Total assets		3,332,329	2,876,051	2,776,818	687,154	9,672,352
Liabilities and equity						
Deposits from banks	1.58	175,000	-	-	122,654	297,654
Deposits from customers	3.67	3,254,046	1,760,497	420,122	1,628,073	7,062,738
Liabilities under acceptances		224,565	54,231	7,756	-	286,552
Other liabilities	-	-	-	-	148,869	148,869
Equity	-	-	-	-	1,876,539	1,876,539
Total liabilities and equity		3,653,611	1,814,728	427,878	3,776,135	9,672,352
Interest rate sensitivity gap		(321,282)	1,061,323	2,348,940	(3,088,981)	-
Cumulative interest rate sensitivity gap:						
As of 31 December 2009		(321,282)	740,041	3,088,981		
As of 31 December 2008		(1,544,993)	(628,524)	2,172,549		

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

d) Market Risk (continued)

The assets and liabilities repricing profile has been determined on the basis of the final maturity period or interest repricing periods at the reporting date, whichever is earlier.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Sensitivity analysis - Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and related income. The Bank manages the risk principally through monitoring interest rate gaps and matching the re-pricing profile of assets and liabilities. The Bank also assesses the impact of defined movement in interest yield curves on its net interest income. The following is the impact of interest rate movement on interest income and regulatory capital.

Shift in yield curve	2009 AED '000	2008 AED '000
+200 b.p.	49,712	49,288
-200 b.p.	-49,712	-49,288

A substantial portion of the Bank's assets and liabilities are re-priced within 1-year. Accordingly there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 8,054 million of monthly average interest bearing assets and AED 5,569 million of monthly average interest bearing liabilities (31 Dec 2008: AED 7,548 million average interest bearing assets and AED 5,084 million average interest bearing liabilities.) The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

Equity price risk

Equity price risk arises from available-for-sale and fair value through profit or loss equity securities. The management of the Bank monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the management. The Bank manages this risk through diversification of investments in terms of industry distribution.

The primary goal of the Bank's investment strategy is to maximize investment returns. In accordance with this strategy, certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

Sensitivity analysis - equity price risk

Most of the Bank's equity investments are listed either on the Dubai Financial Market or the Abu Dhabi Securities Market. For such investments classified as available-for-sale, a 5% increase in the two markets at the reporting date would have increased equity by AED 10.06 million (31 December 2008: AED 10.46 million) and an equal change in the opposite direction would have decreased equity by a similar amount. For investments classified as fair value through profit or loss, the impact on the income statement would have been an increase or decrease of AED 0.59 million (31 December 2008: AED 1.42 million). Majority of the equity investments are concentrated in financial sector (Refer note 10 for gross exposure).

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

d) Market Risk (continued)

Foreign currency risk

Invest Bank engages in limited trading in foreign exchange on its own account. Its treasury activity is mainly directed to assisting its customers in managing their foreign exchange exposures. A system of exposure limits is in place to control price risk on foreign exchange exposures and a system of individual credit limits is in place to control counter-party risk. The amount mentioned in the table below reflects the equal but opposite potential effect on income statement and equity based on a 1% negative or positive currency fluctuation, with all other variables held constant.

At the reporting date, the Bank has the following net open currency exposures in respect of un-pegged currencies:

	2009 - AED '000			2008 - AED '000		
	Total	Impact on income statement	Impact on equity	Total	Impact on income statement	Impact on equity
British Pound	(616)	(6)	-	(39,738)	(397)	-
Euro	(18,657)	(187)	-	(97,223)	(972)	-
Lebanese Pound	117,203	-	1,172	82,789	-	828

e) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

Operational risks emanate from every segment of Bank's operation and are faced by all the business units.

Invest Bank has taken measures to put in place tools, firstly to identify all such operational risks. The Bank has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimize financial losses and damage to Bank's reputation.

For this purpose the Bank has hired a consulting firm that specializes in providing expertise in managing all risks, contracted to put in place a dedicated software and appointed a compliance and operational risk manager to oversee the whole process.

In addition to the reviews by internal audit, the compliance with policies and procedures will now be strengthened by reviews of compliance and operational risk manager.

In Order to ensure a structured and focussed Operational risk management ("ORM") process, the Bank has also formed an ORM committee whose mandate is to oversee ORM process, consider each operational risk in order of "Priority by significance", to develop policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems as well as recommend best way to integrate the ORM in the overall organization wide risk management process.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

f) Capital risk management and Basel II requirements

Capital allocation

The Bank's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Bank's objective when managing capital are as follows.

- Safeguarding the Bank's ability to continue as a going concern and increase return for shareholders; and
- Comply with regulatory capital set by Central Bank of UAE.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Bank also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the implemented Credit Appraisal System.

The Bank's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Bank has determined its regulatory capital as recommended by the New Basel II Capital Accord, in line with the guidelines of the UAE Central Bank with effect from 2007. The Bank has adopted a standardized approach for Credit risk and Market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB by 2011 and 2016 respectively. The Bank have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year, except that during the year, the Central Bank has advised that the capital adequacy ratio should be increased to 11% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 7% by 30 September 2009 and 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% by 30 June 2010.

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges, general provision and subordinated term loans. The following limits have been applied for Tier 2 capital:
 - Total tier 2 capital shall not exceed 67% of tier 1 capital;
 - Subordinated liabilities shall not exceed 50% of total tier 1 capital;
 - General provision shall not exceed 1.25% of total risk weighted assets.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

f) Capital risk management and Basel II requirements (continued)

Reporting Date: The Bank's regulatory capital position at 31 December was as follows:

TIER 1 CAPITAL

	2009	2008
	AED '000	AED '000
Share capital	1,155,000	1,100,000
Legal reserves	235,193	206,341
Special reserves	235,193	206,341
Retained earnings	57,283	55,170
	-----	-----
Total tier 1 capital	1,682,669	1,567,852
	=====	=====

TIER 2 CAPITAL

Asset revaluation reserves	9,077	(23,387)
General provisions/general loan loss reserves	34,112	31,536
Subordinated debt	403,805	-
	-----	-----
Total tier 2 capital	446,994	8,149
	-----	-----
Total regulatory capital (Sum of tier 1 and 2 capital)	2,129,663	1,576,001
	=====	=====

RISK WEIGHTED ASSETS

Credit risk	7,129,203	8,136,702
Market risk	115,961	179,980
Operational risk	687,326	572,286
	-----	-----
Total risk weighted assets (RWA)	7,932,490	8,888,968
	=====	=====
Total regulatory capital expressed as % of RWA	26.85%	17.73%
	-----	-----
Total tier 1 capital expressed as % of RWA	21.21%	17.64%

Tier-2 Capital at 31 December 2009 as shown above includes subordinated debt from The Ministry of Finance of the U.A.E. amounting to AED 403,805 million (refer note 14).

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

f) Capital risk management and Basel II requirements (continued)

Total capital requirement for market risk under standardised approach as per BASEL II Pillar 3

is as follows:

	2009 - AED '000		2008 - AED '000	
	Capital required	Risk weighted assets	Capital required	Risk weighted assets
Interest rate risk	-	-	-	-
Equity position risk	1,892	18,921	3,441	34,410
foreign exchange risk	9,704	97,040	14,557	145,570
Commodity risk	-	-	-	-
Total capital requirement	11,596	115,961	17,998	179,980

Investbank P.S.C.

Notes (continued)

5 Classes and categories of financial instruments

Accounting classification and fair values

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

At 31 December 2009	Held for trading	Held to maturity	Loans and advances	Available-for- sale	Others at amortized cost
	AED '000	AED '000	AED '000	AED '000	AED '000
<u>Financial assets</u>					
Cash and deposits with the UAE Central Bank			-	-	1,031,024
Trading securities -Quoted equities	11,828	-	-	-	-
Due from banks	-	-	1,385,636	-	-
Loans and advances to customers	-	-	6,388,863	-	-
Held to maturity - Sukuk / Bonds	-	215,963	-	201,370	-
	-----	-----	-----	-----	-----
	11,828	215,963	7,774,499	201,370	1,031,024
	=====	=====	=====	=====	=====
<u>Financial liabilities</u>					
Customer deposits	-	-	-	-	7,062,738
Deposits from banks	-	-	-	-	297,654
	-----	-----	-----	-----	-----
	-	-	-	-	7,360,392
	=====	=====	=====	=====	=====
At 31 December 2008					
<u>Financial assets</u>					
Cash and deposits with the UAE Central Bank			-	-	528,918
Trading securities -Quoted equities	27,846	-	-	-	-
Due from banks	-	-	1,048,665	-	-
Loans and advances to customers	-	-	6,623,784	-	-
Held to maturity - Sukuk / Bonds	-	178,175	-	210,091	-
	-----	-----	-----	-----	-----
	27,846	178,175	7,672,449	210,091	528,918
	=====	=====	=====	=====	=====
<u>Financial liabilities</u>					
Customer deposits	-	-	-	-	6,954,540
Deposits from banks	-	-	-	-	209,208
	-----	-----	-----	-----	-----
	-	-	-	-	7,163,748
	=====	=====	=====	=====	=====

Investbank P.S.C.

Notes *(continued)*

6 Use of estimates and judgments

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies is as follows:

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on at least a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of derivatives and unquoted securities

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values, these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

(c) Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Investbank P.S.C.

Notes (continued)

7 Segmental analysis

The Bank operates in one geographic area, the United Arab Emirates, and its results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

Year ended	Dec-09			Dec-08		
	Commercial Banking	Treasury and Investments	Total	Commercial Banking	Treasury and Investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest and other income	398,081	97,665	495,746	411,126	40,345	451,471
Net impairment losses	(78,484)	(28,719)	(107,203)	(26,050)	(327,404)	(353,454)
Net profit/(loss) for the year	225,187	63,330	288,517	277,208	(272,504)	4,704
Segment capital expenditure	3,691	-	3,691	4,800	32	4,832
Segment depreciation	6,957	-	6,957	6,883	18	6,901
At 31 December						
Segment total assets	6,823,972	2,848,380	9,672,352	6,587,665	2,551,352	9,139,017
Segment total liabilities	7,527,340	268,473	7,795,813	7,627,965	(33,413)	7,594,552

8 Cash and deposits with the UAE Central Bank

	2009	2008
	AED'000	AED'000
Cash in hand	55,595	54,299
Deposits in current a/c with the UAE Central Bank (CB)	66,878	94,464
Placements in certificates of deposits with CB	675,000	80,000
Statutory reserve deposits with CB	233,551	300,155
	1,031,024	528,918

Statutory reserve deposits are required to maintain as per regulations of the UAE Central Bank; the deposits are not available for the Bank's day-to-day operations and are non-interest bearing.

Investbank P.S.C.

Notes (continued)

9 Due from other banks

	2009 AED'000	2008 AED'000
Money market placements	1,249,300	980,330
Items in course of collection	136,336	68,335
	----- 1,385,636 =====	----- 1,048,665 =====

10 Investment securities

	2009 AED'000	2008 AED'000
<i>Financial assets at fair value through profit or loss - Trading</i>		
-quoted equities	11,828	27,846
<i>Available-for-sale financial assets (AFS) - Equities</i>	201,370	210,091
<i>Held to maturity - Sukuk / Bonds</i>	249,147	249,147
	----- 462,345 =====	----- 487,084 =====

AFS equities include an unquoted equity investments held as strategic investments in First National Bank, Lebanon ("FNB") of AED 117.2 million (2008: AED 80.3 million), which represents and 18% interest in FNB. At 31 December 2009, the fair value of this investment is determined using comparable market value approach (2008: At cost), resulting in fair value gain of AED 36.9 million (2008: AED Nil) recognized in other comprehensive income.

All AFS equities are quoted other then investment in FNB as stated above.

Revaluation reserve

At 31 December 2009, the positive revaluation reserve of AED 20.1 million (2008: negative revaluation reserve of AED 23.4 million) includes net fair value losses of AED 16.2 million (2008: loss of AED 22.6 million) on available-for-sale financial assets which are recognized in other comprehensive income.

Net (losses)/gains from investment securities

Net (losses)/gains from investment securities have the following components for the year ended 31 December:

	2009 AED'000	2008 AED'000
Realised gains / losses on sale of financial assets at fair value through profit or loss	18,019	20,817
Realised gains on sale of financial assets held as available-for-sale	22,893	9,181
Fair value adjustment for financial assets at fair value through profit or loss	(3,960)	(43,964)
	----- 36,952 =====	----- (13,966) =====

Investbank P.S.C.

Notes (continued)

10 Investment securities (continued)

Fair Value Hierarchy

The table below analyses financial instruments, measured at fair value at the end of reporting period, by level into fair value hierarchy into which the fair value measurement is categorised:

At 31 December 2009

<u>Financial assets</u>	Level 1	Level 2	Level 3	Total
Trading securities -Quoted equities	11,828	-	-	11,828
Available-for-sale financial assets	84,167	117,203	-	201,370
	-----	-----	-----	-----
	95,995	117,203	-	213,198
	=====	=====	=====	=====

At 31 December 2008

<u>Financial assets</u>	Level 1	Level 2	Level 3	Total
Trading securities -Quoted equities	27,846	-	-	27,846
Available-for-sale financial assets	129,049	81,042	-	210,091
	-----	-----	-----	-----
	156,895	81,042	-	237,937
	=====	=====	=====	=====

Investbank P.S.C.

Notes (continued)

10 Investment securities (continued)

During 2008, the Bank made investments of AED 250 million in sukuku / bonds, which were initially classified as AFS investments. As per the provisions of International Accounting Standard 39 (ISA 39), with effect from 1 July 2008 the Bank reclassified its AFS investments in sukuku / bonds to the held to maturity category. The fair values of the sukuku / bonds at the date of re-classification was AED 249.1 million. The effects of the reclassification are set out below:

	2009		2008	
	Impact on equity AED'000	Impact on income statement AED'000	Impact on equity AED'000	Impact on income statement AED'000
Before reclassification				
Unrealized fair value loss recognized in the revaluation reserve.	-	-	71,825	-
After reclassification				
Amortization of unrealized fair value loss recognized in the income statement.		172	-	43
Unamortized fair value loss recognized in the revaluation reserve.	638	-	810	

Investbank P.S.C.

Notes (continued)

11 Property and Equipment

	Land and building AED'000	Office installation and improvements AED'000	Office furniture and equipment AED'000	Motor vehicles AED'000	Total AED'000
Cost					
At 1 January 2009	43,495	15,741	29,009	335	88,580
Additions	-	227	3,464	-	3,691
Disposals/ transfer	(1,280)	-	(308)	-	(1,588)
At 31 December 2009	42,215	15,968	32,165	335	90,683
Accumulated depreciation					
At 1 January 2009	16,925	6,732	19,816	335	43,808
Charge for the year	1,129	1,474	4,354	-	6,957
Disposals/ transfer	(1,515)	-	(73)	-	(1,588)
At 31 December 2009	16,539	8,206	24,097	335	49,177
Net book value at 31 December 2009	25,676	7,762	8,068	-	41,506
Cost					
At 1 January 2008	48,215	15,016	24,902	335	88,468
Additions	-	725	4,107	-	4,832
Disposals/ transfer	(4,720)	-	-	-	(4,720)
At 31 December 2008	43,495	15,741	29,009	335	88,580
Accumulated depreciation					
At 1 January 2008	20,280	5,247	15,529	335	41,391
Charge for the year	1,129	1,485	4,287	-	6,901
Disposals/ transfer	(4,484)	-	-	-	(4,484)
At 31 December 2008	16,925	6,732	19,816	335	43,808
Net book value at 31 December 2008	26,570	9,009	9,193	-	44,772

Investbank P.S.C.

Notes (continued)

12 Other assets

	2009	2008
	AED'000	AED'000
Interest receivable	33,965	39,449
Investment property	31,495	35,441
Prepayments and other assets	10,966	5,125
	<u>76,426</u>	<u>80,015</u>
	=====	=====

The Bank had acquired two properties in settlement of debt. These properties are classified as investment property. The management adopted a fair value model and revalued these properties to their estimated fair value based on a professional valuation performed by an independent real estate valuers. The change in fair value was recorded in other operating income.

13 Deposits from other banks

	2009	2008
	AED'000	AED'000
Placements with the Bank	175,000	58,768
Items in course of collection	119,105	141,720
Demand deposits	3,549	5,914
Overdrawn nostro balance (book balance)	-	2,806
	<u>297,654</u>	<u>209,208</u>
	=====	=====

14 Deposits from customers

	2009	2008
	AED'000	AED'000
Time deposits	5,434,664	4,898,616
Savings accounts	95,209	93,835
Current and other accounts	1,532,865	1,962,089
	<u>7,062,738</u>	<u>6,954,540</u>
	=====	=====

Customer deposits by geographical area are as follows:

	2009	2008
	AED'000	AED'000
Within the UAE	7,042,600	6,931,694
Others	20,138	22,846
	<u>7,062,738</u>	<u>6,954,540</u>
	=====	=====

Time deposits include deposits of AED 404 million (2008: AED 404 million) received from the Ministry of Finance, United Arab Emirates. On 25 March 2009, the Shareholders resolved to convert these deposits into subordinate debt authorising the Board of Director to undertake necessary action to execute the agreement with the Ministry of Finance. On 30 December 2009, the Board of Directors resolved approving the term of the agreement for conversion of the above deposits and the signed agreement dated 31 December 2009 (re-categorization date) was submitted by the Bank to the Ministry of Finance. As per the terms of the agreement these deposits can now be treated as subordinate to equity as lower Tier 2 capital in accordance with the conditions as set out in the agreement. The subordinate debt carries interest which ranges from 4% per annum to 5.25% per annum payable quarterly from the date of re-categorization until the maturity of loan in December 2016.

Investbank P.S.C.

Notes (continued)

15 Other liabilities

	2009	2008
	AED'000	AED'000
Interest payable	74,679	46,780
Unearned commission income	20,976	24,604
Staff benefits payable	10,800	9,441
Accrued expenses	6,850	5,590
Managers' cheques	9,483	5,865
Others	26,081	12,745
	<u>148,869</u>	<u>105,025</u>
	=====	=====

16 Capital and Reserves

During the year the Bank issued 55 million bonus shares of AED 1 each. Accordingly at 31 December 2009, the Bank's authorised, issued, and paid up capital was 1.15 billion shares (2008: 1.1 billion shares) and comprised 1.15 billion shares (2008: 1.1 billion shares).

Proposed dividend

The Board of Directors has proposed to the shareholders a cash dividend of AED 173 million (2008 : AED NIL) being 15% of the paid up capital (2008: NIL).

Reserves

In accordance with Article 82 of Federal Law No.10 of 1980, a transfer equivalent to 10% of net profit, if any, is made annually to the legal reserve until this reserve equals to 50% of the share capital.

In accordance with the Bank's Articles of Association, as a minimum 10% of net profit is transferred annually to a special reserve which will be used for purposes to be determined by the ordinary general meeting upon a proposal being made by the Board of Directors.

Investbank P.S.C.

Notes (continued)

17 Net interest income

	2009	2008
	AED'000	AED'000
Interest income :		
Loans and advances to banks	11,878	14,756
Certificates of deposits	3,517	34,969
Performing loans	574,038	441,004
	-----	-----
	589,433	490,729
	-----	-----
Interest expenses :		
Deposits from other banks	(626)	(15,913)
Time deposits	(246,995)	(165,899)
Call deposits	(5,071)	(3,452)
Savings accounts and others	(1,739)	(1,504)
	-----	-----
	(254,431)	(186,768)
	-----	-----
	335,002	303,961
	=====	=====

18 Net fees and commission income

	2009	2008
	AED'000	AED'000
Fees and commission income :		
Letters of credit fee	18,106	18,703
Letters of guarantee fee	42,139	34,851
Retail and corporate lending fees	14,720	17,247
Minimum balance fees	241	226
Commission on transfers	4,948	4,781
Others	17,414	16,000
	-----	-----
	97,568	91,808
	-----	-----
Fees and commission expenses :		
Service charges	(293)	(255)
Others	(44)	(19)
	-----	-----
	(337)	(274)
	-----	-----
	97,231	91,534
	=====	=====

19 Other operating income

	2009	2008
	AED'000	AED'000
Fair value (loss)/gain on investment property	(3,710)	34,410
Dividends on investment securities	5,731	5,966
Other income	2,063	4,630
Rental income	688	691
	-----	-----
	4,772	45,697
	=====	=====

Investbank P.S.C.

Notes (continued)

20 General and administrative expenses

	2009 AED'000	2008 AED'000
Payroll and related costs	70,905	67,172
Occupancy	5,832	5,296
Others	14,560	12,214
	-----	-----
	91,297	84,682
	=====	=====

21 Provision for other expenses

	2009 AED'000	2008 AED'000
Depreciation	6,957	6,937
Provision for staff terminal benefits	1,772	1,694
	-----	-----
	8,729	8,631
	=====	=====

22 Employees

The total number of staff employed by the Bank at 31 December 2009 was 443 (31 December 2008: 439).

23 Earnings per share

	2009	2008
Basic earnings per share is calculated as follows:		
Net profit for the year AED ('000)	288,517	4,704
Weighted average number of shares outstanding at 31 December ('000)	1,155,000	1,155,000
Basic earnings per share AED	0.250	0.004
	====	====

At reporting date the Bank do not have any instrument resulting in dilution of basic earnings per share.

24 Cash and cash equivalents

Cash and deposits with the UAE Central Bank include certificates of deposit amounting to AED 200 million (2008: AED 80 million) with the UAE Central Bank that mature within three months.

	2009 AED'000	2008 AED'000
Cash and deposits with the UAE Central Bank	556,024	528,918
Due from other banks maturing within three months	1,385,636	1,048,665
Deposits from other banks maturing within three months	(297,654)	(209,208)
	-----	-----
	1,644,006	1,368,375
	=====	=====

Investbank P.S.C.

Notes (continued)

24 Cash and cash equivalents (continued)

Cash and deposits with the UAE Central Bank include AED 233.5 million (2008: AED 300.15 million) comprising mandatory reserves with the U.A.E. Central Bank which are not available for use in the Bank's day to day operations.

25 Related party transactions

In the normal course of business, the Bank enters into various transactions with key management personnel and their related companies. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director, executive or otherwise, of the Bank. The related party transactions are executed at the terms agreed between the parties, which in opinion of the management are not significantly different from those that could have been obtained from third parties. The volume of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	Key management personnel 2009 AED'000	Associated companies 2009 AED'000	Key management personnel 2008 AED'000	Associated companies 2008 AED'000
Loans				
Loans outstanding at 1 January	83,318	348,129	85,607	205,766
Loans issued during the year	59,097	24,858	20,830	184,138
Loan repayments during the year	(24,120)	(86,452)	(23,119)	(41,775)
	-----	-----	-----	-----
Loans outstanding at 31 December	118,295	286,535	83,318	348,129
	=====	=====	=====	=====
Interest income earned during the year	6,952	27,643	6,423	22,975
	=====	=====	=====	=====
Outstanding letters of credit and guarantees at 31 December	3,315	130,827	3,698	141,857
	=====	=====	=====	=====

No provisions have been recognized in respect of loans granted to related parties (2008: Nil).

The loans extended to directors during the year are repayable over 1 year and bear interest at rates ranging from 4.5 % to 12.5 % per annum (2008: 4.5% to 12.5%). At 31 December 2009, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 236.02 million (2008: AED 215.2 million).

	Key management personal 2009 AED'000	Associated companies 2009 AED'000	Key management personnel 2008 AED'000	Associated companies 2008 AED'000
Deposits				
Deposits at 1 January	140,666	502,789	103,350	282,457
Deposits received during the year	28,507	314,256	42,200	226,255
Deposits repaid during the year	(7,762)	(281,696)	(4,884)	(5,923)
	-----	-----	-----	-----
Deposits at 31 December	161,411	535,349	140,666	502,789
	=====	=====	=====	=====
Interest expenses during the year	7,528	27,953	6,803	19,784
	=====	=====	=====	=====

Investbank P.S.C.

Notes (continued)

25 Related party transactions (continued)

	2009 AED'000	2008 AED'000
Key management compensation		
Salaries and other short term benefits	10,535	9,522
Termination benefits	228	242
	-----	-----
	10,763	9,764
	=====	=====
Proposed directors' remuneration		

Subsequent to the reporting date, the Board of Directors proposed their remuneration in the amount of AED 1.2 million (2008: AED Nil)

26 Commitments and contingent liabilities

The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	2009 AED'000	2008 AED'000
Letters of credit	379,935	615,961
Letters of guarantee	3,769,185	3,733,865
Commitment to extend credit	1,475,791	1,056,500
Foreign exchange and forward commitments	6,747	12,353
	-----	-----
	5,631,658	5,418,679
	=====	=====

Customers' indebtedness for acceptances represents the accepted documented liability amount which is recoverable from the respective customers of the Bank at the reporting date. **Liabilities under acceptances** represents bills of exchange, letters of credit etc where the Bank has accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Bank does not have a legal right of set-off.

Commitment to extend credit represent unused portions of authorizations to extend credit in form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considered less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Exposure by geography as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2009	2008	2009	2008	2009	2008
United Arab Emirates	1,475,791	1,056,500	6,747	12,353	3,749,317	3,865,412
GCC Excluding UAE	-	-	-	-	399,803	484,414
	-----	-----	-----	-----	-----	-----
	1,475,791	1,056,500	6,747	12,353	4,149,120	4,349,826
	=====	=====	=====	=====	=====	=====

Investbank P.S.C.

Notes (continued)

26 Commitments and contingent liabilities (continued)

Exposure by currency as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2009	2008	2009	2008	2009	2008
Foreign Currency	-	-	6,747	12,353	344,830	449,221
AED	1,475,791	1,056,500	(6,747)	(12,353)	3,804,290	3,900,605
	-----	-----	-----	-----	-----	-----
	1,475,791	1,056,500	-	-	4,149,120	4,349,826
	=====	=====	=====	=====	=====	=====

Exposure by industry segment as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2009	2008	2009	2008	2009	2008
Agriculture, fishing and	-	-	-	-	48	82
Crude Oil, Gas, Mining	-	-	-	-	14,578	11,884
Manufacturing	26,485	25,645	-	-	424,114	554,656
Electricity and Water	-	-	-	-	7,453	24,831
Construction	1,103,431	774,366	-	-	1,329,891	1,761,738
Trade	-	-	-	-	635,274	536,512
Transport, Storage and	-	-	-	-	11,820	22,431
Financial Institutions	-	-	6,747	12,353	20,935	38,326
Services	-	-	-	-	310,187	315,464
Government	-	-	-	-	12,006	8,861
Retail/ Consumer	-	-	-	-	2,292	3,059
All Others	345,875	256,489	-	-	1,380,522	1,071,982
	-----	-----	-----	-----	-----	-----
Total	1,475,791	1,056,500	6,747	12,353	4,149,120	4,349,826
	=====	=====	=====	=====	=====	=====

Investbank P.S.C.

Notes (continued)

26 Commitments and contingent liabilities (continued)

Exposure by residual contractual maturity as at 31 December

	Commitment to extend credit		Foreign exchange and forward		Other Commitments and contingent liabilities	
	2009	2008	2009	2008	2009	2008
Less than 3 months	560,800	476,000	6,747	12,353	1,256,489	1,565,937
3 months to one year	914,991	580,500	-	-	2,892,631	2,783,889
One to five years	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Grand Total	1,475,791	1,056,500	6,747	12,353	4,149,120	4,349,826
	=====	=====	=====	=====	=====	=====