

**NATIONAL BANK OF UMM AL-QAIWAIN (PSC)
AND SUBSIDIARY
UMM AL-QAIWAIN - UNITED ARAB EMIRATES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2009**

**National Bank of Umm Al-Qaiwain (psc) and Subsidiary
Umm Al-Qaiwain - United Arab Emirates**

**Consolidated Financial Statements and
Independent Auditor's Report
For the year ended December 31, 2009**

Table of Contents

| | <u>Pages</u> |
|---|---------------|
| Independent Auditor's Report | 1 - 2 |
| Consolidated Statement of Financial Position | 3 |
| Consolidated Statement of Income | 4 |
| Consolidated Statement of Comprehensive Income | 5 |
| Consolidated Statement of Changes in Equity | 6 |
| Consolidated Statement of Cash Flows | 7 |
| Notes to the Consolidated Financial Statements | 8 - 62 |

Independent Auditor's Report

**The Shareholders
National Bank of Umm Al-Qaiwain (psc) and Subsidiary
Umm Al-Qaiwain
United Arab Emirates**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **National Bank of Umm Al-Qaiwain (psc) (the 'Bank') and Subsidiary (together the 'Group'), Umm Al-Qaiwain, United Arab Emirates** which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the **National Bank of Umm Al-Qaiwain (psc) and Subsidiary, Umm Al-Qaiwain, United Arab Emirates** as of December 31, 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards. As disclosed in note 37 to the consolidated financial statements, the Board of Directors amended their recommendation regarding the proposed cash dividend and accordingly, the previously issued consolidated financial statements on January 28, 2010 were recalled.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of account. The information contained in the directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, U.A.E. Union Law No. 10 of 1980, as amended, or the Articles of Association of the Group Companies which might have materially affected the financial position of the Group or its financial performance.

For Deloitte & Touche

Sharjah
February 21, 2010

Saba Y. Sindaha
Partner
(Registration No. 410)

Consolidated Statement of Financial Position
At December 31, 2009
(In Thousand Arab Emirates Dirhams)

| | Notes | <u>December 31,</u> <u>2009</u> | <u>December 31,</u> <u>2008</u> |
|---|-------|------------------------------------|------------------------------------|
| Assets | | | |
| Cash and balances with the UAE Central Bank | 5 | 3,488,956 | 399,740 |
| Due from other banks | 6 | 802,759 | 2,109,518 |
| Loans and advances | 7 | 8,287,589 | 9,848,246 |
| Investment securities | 8 | 476,414 | 554,739 |
| Customers' acceptances | | 600,913 | 413,710 |
| Property and equipment | 9 | 91,673 | 100,128 |
| Other assets | 10 | 136,595 | 116,775 |
| Total assets | | 13,884,899 | 13,542,856 |
| Liabilities | | | |
| Due to other banks | 11 | 1,224,626 | 2,410,437 |
| Customers' deposits | 12 | 7,366,232 | 6,822,168 |
| Customers' acceptances | | 600,913 | 413,710 |
| Medium term loan | 13 | 578,453 | - |
| Other liabilities | 14 | 1,102,091 | 1,114,393 |
| Total liabilities | | 10,872,315 | 10,760,708 |
| Shareholders' equity | | | |
| Share capital | 15 | 1,452,000 | 1,320,000 |
| Statutory reserve | 16 | 1,019,266 | 1,019,266 |
| General reserve | 17 | 6,440 | 6,440 |
| Cumulative change in fair values | | (3,845) | (25,210) |
| Retained earnings | | 538,723 | 461,652 |
| Total shareholders' equity | | 3,012,584 | 2,782,148 |
| Total liabilities and shareholders' equity | | 13,884,899 | 13,542,856 |
| Commitments and contingent liabilities | 18 | 8,839,096 | 12,041,641 |

The accompanying notes form an integral part of these consolidated financial statements.

Abdulla Ahmad Al Moosa
Deputy Chairman

Nasser Bin Rashid Al - Mo'alla
Managing Director and
Chief Executive Officer

Consolidated Statement of Income
For the year ended December 31, 2009
(In Thousand Arab Emirates Dirhams)

| | Notes | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|-------|------------------------------------|------------------------------------|
| Interest income | 19 | 799,567 | 583,345 |
| Interest expense | 19 | (207,418) | (162,357) |
| Net interest income | | 592,149 | 420,988 |
| Fee and commission income | | 79,763 | 90,978 |
| Other operating income | 20 | 19,253 | 44,282 |
| Gross income | | 691,165 | 556,248 |
| Operating expenses | 21 | (154,071) | (169,521) |
| Operating income | | 537,094 | 386,727 |
| Investment losses | 22 | (37,500) | (85,560) |
| Impairment losses on held to maturity investments | | (17,092) | - |
| Provision for impairment of due from other banks | 6 | (80,806) | - |
| Provision for impairment of loans and advances net of release | 7 | (60,625) | (17,502) |
| Profit for the year | | 341,071 | 283,665 |
| Basic earnings per share (in AED) | 24 | 0.23 | 0.20 |

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2009
(In Thousand Arab Emirates Dirhams)

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|---|---|
| Profit for the year | 341,071 | 283,665 |
| Other comprehensive income | | |
| Net loss on available-for-sale investments recognised directly in equity | (17,941) | (65,756) |
| Transfer from equity on sale of available- for-sale investments | (8,797) | 4,095 |
| Impairment losses on available-for-sale investments | <u>48,103</u> | <u>12,406</u> |
| Total comprehensive income for the year | <u>362,436</u> ===== | <u>234,410</u> ===== |

The accompanying notes form an integral part of these consolidated financial statements.

**National Bank of Umm Al-Qaiwain (psc) and Subsidiary
Umm Al-Qaiwain - United Arab Emirates**

6

**Consolidated Statement of Changes in Equity
For the year ended December 31, 2009
(In Thousand Arab Emirates Dirhams)**

| | <u>Share capital</u> | <u>Statutory reserve</u> | <u>General reserve</u> | <u>Cumulative change in fair values</u> | <u>Retained earnings</u> | <u>Total</u> |
|---|--------------------------|------------------------------|----------------------------|---|------------------------------|-------------------------|
| Balance at December 31, 2007 | 660,000 | 524,266 | 6,440 | 24,045 | 507,987 | 1,722,738 |
| Profit for the year | - | - | - | - | 283,665 | 283,665 |
| Other comprehensive loss for the year | - | - | - | (49,255) | - | (49,255) |
| Total comprehensive income for the year | - | - | - | (49,255) | 283,665 | 234,410 |
| Bonus shares issued during the year (Note 15) | 330,000 | - | - | - | (330,000) | - |
| Right shares issued during the year (Note 15) | 330,000 | 495,000 | - | - | - | 825,000 |
| Balance at December 31, 2008 | <u>1,320,000</u> | <u>1,019,266</u> | <u>6,440</u> | <u>(25,210)</u> | <u>461,652</u> | <u>2,782,148</u> |
| Profit for the year | - | - | - | - | 341,071 | 341,071 |
| Other comprehensive income for the year | - | - | - | 21,365 | - | 21,365 |
| Total comprehensive income for the year | - | - | - | 21,365 | 341,071 | 362,436 |
| Bonus shares issued during the year (Note 15) | 132,000 | - | - | - | (132,000) | - |
| Dividend paid | - | - | - | - | (132,000) | (132,000) |
| Balance at December 31, 2009 | <u>1,452,000</u> | <u>1,019,266</u> | <u>6,440</u> | <u>(3,845)</u> | <u>538,723</u> | <u>3,012,584</u> |

The accompanying notes form an integral part of these consolidated financial statements.

**Consolidated Statement of Cash Flows
For the year ended December 31, 2009
(In Thousand Arab Emirates Dirhams)**

| | <u>Year ended December 31, 2009</u> | <u>Year ended December 31, 2008</u> |
|---|---|---|
| Operating activities | | |
| Profit for the year | 341,071 | 283,665 |
| Adjustments: | | |
| Provision for impairment - net | 158,523 | 17,502 |
| Depreciation for property and equipment | 13,489 | 12,873 |
| Decrease in fair value of investment securities at fair value through profit and loss - held for trading | 10,590 | 78,842 |
| Discount amortised | (3,148) | (1,467) |
| (Gain)/loss on sale of investment in securities | (10,849) | 4,250 |
| Impairment losses on investment securities available-for- sale | 48,103 | 12,406 |
| Dividend income | (3,182) | (8,471) |
| Loss/(profit) on disposal of property and equipment | 123 | (27) |
| Operating cash flows before movements in working capital | 554,720 | 399,573 |
| Increase in term loans to banks | (73,460) | (9,182) |
| Decrease/(increase) in statutory deposit with the UAE Central Bank | 7,741 | (85,279) |
| Decrease/(increase) in loans and advances net of provision and amounts written off | 1,500,032 | (4,936,525) |
| Increase in other assets | (19,821) | (57,991) |
| (Decrease)/increase in due to other banks | (1,185,810) | 484,696 |
| Increase in customers' deposits | 544,064 | 2,289,486 |
| (Decrease)/increase in other liabilities | (12,600) | 996,834 |
| Net cash from/(used in) operating activities | 1,314,866 | (918,388) |
| Investing activities | | |
| Purchase of property and equipment | (5,162) | (9,485) |
| Proceeds from sale of property and equipment | 5 | 27 |
| Purchase of investment in securities | (490,832) | (460,729) |
| Proceeds from sale of investment in securities | 528,734 | 149,289 |
| Dividend received | 3,182 | 8,471 |
| Net cash from/(used in) investing activities | 35,927 | (312,427) |
| Financing activities | | |
| Proceeds from right issue of shares | - | 825,000 |
| Medium term loan* | 578,453 | - |
| Dividend paid | (131,702) | (1,216) |
| Cash from financing activities | 446,751 | 823,784 |
| Net increase/(decrease) in cash and cash equivalents | 1,797,544 | (407,031) |
| Cash and cash equivalents, at the beginning of the year | 2,230,878 | 2,637,909 |
| Cash and cash equivalents, at the end of the year (Note 27) | 4,028,422 | 2,230,878 |
| | ===== | ===== |

* Medium term loan for the current year comprise non-cash reclassification from customer deposits amounting to AED 578.4 million (Note 13)

The accompanying notes form an integral part of these consolidated financial statements.

**Notes to the Consolidated Financial Statements
For the year ended December 31, 2009**

1. General information

National Bank of Umm Al-Qaiwain (psc) (the “Bank”) is a Public Shareholding Company incorporated in the Emirate of Umm Al-Qaiwain (“UAQ”) in the United Arab Emirates (“UAE”) by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982. The “Group” comprises National Bank of Umm Al-Qaiwain (psc), Umm Al-Qaiwain, and Twin Towns Marketing Management (L.L.C.), Dubai (see Note 3). The address of the Bank’s registered Head Office is P.O. Box 800, Umm Al-Qaiwain, United Arab Emirates.

The Bank is engaged in providing retail and corporate banking services through a network of 16 branches in the UAE.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

2.1 Standards affecting presentation and disclosure

The following new and revised Standards have been adopted in the current period in these consolidated financial statements. Details of other Standards and Interpretations adopted but that have had no effect on the financial statements are set out in section 2.2.

IAS 1 (as revised in 2007) Presentation of Financial Statements

Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)

IFRS 8 Operating Segments

IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered in these amendments.

IFRS 8 is a disclosure standard that has resulted in re-designation of the Group’s reportable segments (see note 28).

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 Standards and Interpretations adopted with no effect on the consolidated financial statements

The following new and revised Standards and Interpretations have also been adopted in these consolidated financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations

The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.

IAS 23 (as revised in 2007) Borrowing Costs

The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.

IFRIC 13 Customer Loyalty Programmes

The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.

IFRIC 15 Agreements for the Construction of Real Estate

The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction of real estate should be recognised.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 Standards and Interpretations adopted with no effect on the consolidated financial statements (continued)

IFRIC 18 Transfers of Assets from Customers (adopted in advance of effective date of transfers of assets from customers received on or after 1 July 2009)

The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 Revenue.

Improvements to IFRSs (2008)

Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 resulting from the May and October 2008 Annual Improvements to IFRSs majority of which are effective for annual periods beginning on or after 1 January 2009.

2.3 Standards and Interpretations in issue not yet effective

At the date of authorisation of these consolidated financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:
New Standards and amendments to Standards:

| | Effective for annual periods beginning on or after |
|---|---|
| | <hr/> |
| <ul style="list-style-type: none"> • IFRS 1 (revised) First time Adoption of IFRS and IAS 27 (revised) Consolidated and Separate Financial Statements – Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | 1 July 2009 |
| <ul style="list-style-type: none"> • IFRS 3 (revised) Business Combinations – Comprehensive revision on applying the acquisition method and consequential amendments to IAS 27 (revised) Consolidated and Separate Financial Statements, IAS 28 (revised) Investments in Associates and IAS 31 (revised) Interests in Joint Ventures | 1 July 2009 |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.3 Standards and Interpretations in issue not yet effective (continued)

- | | |
|---|--|
| • IAS 39 (revised) Financial Instruments: Recognition and Measurement – Amendments relating to Eligible Hedged Items(such as hedging Inflation risk and Hedging with options) | 1 July 2009 |
| • IFRS 1 (revised) First time Adoption of IFRS – Amendment on additional exemptions for First-time Adopters | 1 January 2010 |
| • IFRS 2 (revised) Share-based payment – Amendment relating to Group cash-settled Share-based payments | 1 January 2010 |
| • IAS 32 (revised) Financial Instruments: Presentation – Amendments relating to classification of Rights Issue | 1 February 2010 |
| • IAS 24 Related Party Disclosures – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government | 1 January 2011 |
| • IFRS 9 Financial Instruments: Classification and Measurement (intended as complete replacement for IAS 39 and IFRS 7) | 1 January 2013 |
| • Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39 resulting from April 2009 Annual Improvements to IFRSs. | Majority effective for annual periods beginning on or after 1 January 2010 |

2.4 New Interpretations and amendments to Interpretations:

- | | <u>Effective for
annual periods
beginning on or after</u> |
|--|---|
| • IFRS 17: Distributions of Non-cash Assets to Owners | 1 July 2009 |
| • IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |
| • Amendment to IFRIC 14: IAS 19: The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction | 1 January 2011 |
| • Amendment to IFRIC 16: Hedges of a Net Investment in a Foreign Operation | 1 July 2009 |
| • Amendment to IFRIC 9 (revised): Reassessment of Embedded Derivatives relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category | 1 July 2009 |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

The directors anticipate that these amendments will be adopted in the Group's consolidated financial statements for the period commencing January 1, 2010 or as and when applicable. Directors anticipate that the adoption of these standards and interpretation in future periods will have no material impact on the consolidated financial statements of Group in the period of initial application.

3. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Bank are expressed in Arab Emirates Dirhams (in thousands), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements of National Bank of Umm Al-Qaiwain (psc) and Subsidiary (the "Group") incorporate the financial statements of the Bank and entity controlled by the Bank (its Subsidiary). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

3. Significant accounting policies (continued)

Subsidiary:

Details of the Bank's subsidiary as at December 31, 2009 is as follows:

| <u>Name of subsidiary</u> | <u>Proportion of ownership interest</u> | <u>Country of incorporation</u> | <u>Principal activity</u> |
|--|---|---------------------------------|---------------------------|
| Twin Towns Marketing Management (L.L.C.) | 99.33% | UAE | Marketing management |

The remaining equity in the above subsidiary is held by the Bank beneficially through nominee arrangements.

Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. It consists of cash and balances with the UAE Central Bank, due from other banks, loans and advances and customers' acceptances.

Loans and advances

Loans and advances are recognised when cash is advanced to the borrowers and are carried at amortised cost using effective interest rate method.

Impairment of loans and advances

Individually assessed loans

Individually assessed loans represent mainly, corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms.

Impaired loans are measured on the basis of the present value of expected future cash flows including collateral if any and the impairment loss is calculated based on the shortfall in the loans carrying value compared to the net present value of future cash flows.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

3. Significant accounting policies (continued)

Financial assets (continued)

Impairment of loans and advances (continued)

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

- a) Performing loans
- b) Small value loans with common features, which are not individually significant.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that the assets are not impaired on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the Bank.

Performing loans

The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Small value loans with common features, which are not individually significant

Small value loans represent mainly credit card dues and other loans which are not individually significant in value. Impairment of such loans is assessed based on ageing analysis of each bucket and impairment losses provided accordingly.

Re-ageing policy

The Bank has set out its re-ageing policy as part of the Credit Risk Policy. The Bank identifies forward shifting of past due date as re-ageing and complies with the Basel II guidelines on the re-ageing policy. This includes re-ageing criteria separately for normal and delinquent accounts, approval authorities, minimum age of the facility before it is eligible for re-ageing, maximum number of re-ageing per facility etc. Re-ageing is always considered based on reassessment of borrower's repayment capacity due to revised economic conditions.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

3. Significant accounting policies (continued)

Financial assets (continued)

Impairment of loans and advances (continued)

Collateral pending sale

The Bank acquires real estate and other collateral in settlement of impaired loans and advances only if immediate sale is not feasible. The Bank's policy is to dispose of any such acquired real estate and other collateral at the earliest. The carrying value of such collateral is the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation, are recognised in the consolidated statement of income.

Investment securities

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

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. 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 assets are designated at fair value through profit or loss when certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

ii) 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. Where the Bank decides to sell other than an insignificant amount of held-to-maturity assets, the entire category is considered to be tainted and reclassified as available-for-sale.

iii) Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

3. Significant accounting policies (continued)

Financial assets (continued)

Investment securities (continued)

Initial recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on trade date which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of income.

Subsequent measurement

Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. Once the available-for-sale financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the consolidated statement of income.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as interest income. Dividends on equity instruments are recognised in the consolidated statement of income when the Bank's right to receive payment is established.

The Bank assesses at each reporting date whether there is objective evidence that a financial asset 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 asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on available-for-sale equity instruments are not reversed through the consolidated statement of income.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

3. Significant accounting policies (continued)

Financial assets (continued)

Investment securities (continued)

Subsequent measurement (continued)

Amortised cost of a financial asset/liability is the amount at which the financial asset or financial 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 and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

3. Significant accounting policies (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities, including customers' deposits, customers' acceptances and due to other banks, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of such assets to their estimated residual values over their expected useful economic lives as follows:

| | <u>Years</u> |
|-------------------------|--------------|
| Buildings | 20 |
| Computers and equipment | 1 - 5 |
| Furniture and fixtures | 5 |
| Leasehold improvements | 3 - 5 |
| Motor vehicles | 5 |

Land is not depreciated, as it is deemed to have an infinite life.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, being the higher of the net selling price and value in use.

Employees' end of service benefits

Pension contributions are made in respect of UAE nationals to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security. A provision is made for the full amount of end of service benefits due to the non-UAE nationals in accordance with the UAE Labour Law, for their periods of service up to the reporting date. This provision is included in other liabilities.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

3. Significant accounting policies (continued)

Financial liabilities and equity instruments (continued)

Employees' end of service benefits (continued)

Management uses the projected unit credit method to measure the employees' end of service benefits payable under the UAE Labour law. Under this method an assessment is made of employee's expected service life with the Bank and the expected basic salary at the date of leaving the service. The expected liability at the date of leaving the service is discounted to its net present value.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Foreign currencies

Items included in the consolidated financial statements of the Bank are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the Bank operates. Foreign currency transactions are translated into UAE Dirhams at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the consolidated statement of income.

Derivative instruments

Derivative instruments, comprising forward foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered. All forward foreign exchange contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of the forward foreign exchange contracts are included in foreign exchange trading income in the consolidated statement of income.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

3. Significant accounting policies (continued)

Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

Commission income earned from the issue of documentary credits and letters of guarantee is recognised on a straight line basis over the period for which the documentary credits and guarantees are issued. Fee income on issue of letters of credit and guarantees is recognised when the underlying transaction is effected.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed.

Operating leases

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the UAE Central Bank.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

4. Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgements 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.

The management believes that based on the review of loans and advances adequate impairment losses were provided in the consolidated financial statements against specific loans and advances and against risks inherent in the portfolio. Management's impairment review was performed taking into consideration international and national economic conditions prevailing in U.A.E. during the year 2009.

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 judgement. In making this judgement, 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.

The management has considered an amount of AED 48.1 million (2008: AED 12.4 million) as impairment loss on available-for-sale investments for the year, based on the analysis of impairment test performed on available-for-sale investments based on conditions prevailing in U.A.E. during the year.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

4. Critical accounting estimates and judgements (continued)

Held- to-maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

5. Cash and balances with the UAE Central Bank

| | December 31, | |
|-------------------------------------|---------------------|----------------|
| | <u>2009</u> | <u>2008</u> |
| | AED'000 | AED'000 |
| Balances with the UAE Central Bank: | | |
| Current account | 108,392 | 39,922 |
| Certificates of deposit | 3,050,000 | - |
| Statutory deposit | <u>233,909</u> | <u>241,650</u> |
| | 3,392,301 | 281,572 |
| Cash in hand | <u>96,655</u> | <u>118,168</u> |
| | <u>3,488,956</u> | <u>399,740</u> |

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the Bank.

6. Due from other banks

| | December 31, | |
|--------------------------|---------------------|------------------|
| | <u>2009</u> | <u>2008</u> |
| | AED'000 | AED'000 |
| Term deposits | 702,900 | 1,995,693 |
| Demand deposits | 151,281 | 77,095 |
| Syndicated loans | <u>29,384</u> | <u>36,730</u> |
| | 883,565 | 2,109,518 |
| Provision for impairment | <u>(80,806)</u> | <u>-</u> |
| | <u>802,759</u> | <u>2,109,518</u> |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

7. Loans and advances

| | December 31, | |
|-----------------------------------|---------------------|----------------|
| | 2009 | 2008 |
| | AED'000 | AED'000 |
| Loans | 5,332,990 | 6,075,101 |
| Overdrafts | 2,320,470 | 2,651,802 |
| Loans against trust receipts | 208,915 | 521,639 |
| Others | 629,159 | 744,979 |
| Total loans and advances | 8,491,534 | 9,993,521 |
| Provision for impairment | (203,945) | (145,275) |
| Net loans and advances | 8,287,589 | 9,848,246 |
| By economic sector | | |
| Wholesale and retail trade | 2,563,600 | 3,513,631 |
| Real estate and construction | 1,593,199 | 1,578,144 |
| Personal loans and others | 1,315,540 | 1,325,110 |
| Manufacturing | 445,136 | 572,948 |
| Agriculture and allied activities | 176 | 774 |
| Transport and communication | 152,035 | 153,403 |
| Financial institutions | 239,048 | 249,972 |
| Services and others | 2,182,800 | 2,599,539 |
| | 8,491,534 | 9,993,521 |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

7. Loans and advances (continued)

Movement in provision for impairment

| | 2009 | | 2008 | |
|--|--|--|--------------------------|--------------------------|
| | Against specific loans and advances AED'000 | Against risks inherent in the portfolio AED'000 | Total AED'000 | Total AED'000 |
| At January 1, | 62,205 | 83,070 | 145,275 | 130,287 |
| Provision made during the year | 86,061 | 2,048 | 88,109 | 39,677 |
| Provision released during the year | (27,484) | - | (27,484) | (22,175) |
| Written off/ utilised during the year | (1,955) | - | (1,955) | (2,514) |
| Provision transferred during the year | 5,447 | (5,447) | - | - |
| At December 31, | <u>124,274</u> | <u>79,671</u> | <u>203,945</u> | <u>145,275</u> |

Net charge for provision for impairment

| | Year ended December 31, 2009 AED'000 | Year ended December 31, 2008 AED'000 |
|------------------------------------|---|---|
| Provision made during the year | 88,109 | 39,677 |
| Provision released during the year | (27,484) | (22,175) |
| | <u>60,625</u> | <u>17,502</u> |

The non-performing loans as at December 31, 2009 amounted to AED 341.12 million (2008: AED 98.8 million). Provisions for impairment in relation to such loans amounted to AED 124.2 million as at December 31, 2009 (2008: AED 62.2 million) (see note 31).

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

8. Investment securities

| | <u>December 31,</u> | |
|--|---------------------|----------------|
| | <u>2009</u> | <u>2008</u> |
| | AED'000 | AED'000 |
| Securities at fair value through profit or loss | | |
| - held for trading | | |
| Funds placed under management | <u>28,470</u> | <u>92,781</u> |
| Securities available-for-sale | | |
| Quoted equity securities | 36,115 | 68,643 |
| Unquoted equity securities | 6,757 | 7,027 |
| Quoted debt instruments | <u>151,179</u> | <u>7,875</u> |
| | <u>194,051</u> | <u>83,545</u> |
| Securities held-to-maturity | | |
| Quoted debt instruments | 236,800 | 378,413 |
| Unquoted debt instruments | <u>34,185</u> | - |
| | 270,985 | 378,413 |
| Provision for impairment | (17,092) | - |
| | <u>253,893</u> | <u>378,413</u> |
| | <u>476,414</u> | <u>554,739</u> |

Reclassification of investments

During the year 2008, the Bank has reconsidered its investment strategy and accordingly the Bank adopted the amendments to IAS 39, which permits to reclassify in particular circumstances, investments held for trading for which change in fair value is recognised in the consolidated statement of income to available-for-sale investments for which the change in the fair value is recognised under equity as cumulative change in fair values.

| | <u>2009</u> | <u>2008</u> |
|---|---------------|------------------|
| | AED '000 | AED'000 |
| Fair value of reclassified investments at the beginning of the year | 43,676 | - |
| Investments reclassified during 2008 | - | 79,294 |
| Impairment loss recognized on reclassified investments | (23,217) | (8,523) |
| Sale of reclassified investments | (4,378) | - |
| Change in fair value | <u>866</u> | <u>(27,095)</u> |
| Fair value of investments reclassified at the end of the year | <u>16,947</u> | <u>43,676</u> |

As a result of the above reclassification, net profit for the year has decreased by AED 0.87 million (2008: AED 27.1 million).

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

8. Investment securities (continued)

| | <u>2009</u> | <u>2008</u> |
|---|-------------------------|------------------|
| | AED'000 | AED'000 |
| Movement in investment securities: | | |
| At the beginning of the year | 554,739 | 386,585 |
| Purchase of investment securities | 490,832 | 460,729 |
| Sale of investment securities | (526,682) | (149,444) |
| Provision for impairment | (17,092) | - |
| Fair value loss on investment securities at fair value through profit and loss - held for trading | (6,576) | (78,842) |
| Discount amortised on debt securities | 3,148 | 1,467 |
| Foreign exchange revaluation | (4,014) | - |
| Net fair value loss on investment securities available-for-sale directly recognised in equity | <u>(17,941)</u> | <u>(65,756)</u> |
| At the end of the year | <u>476,414</u> | <u>554,739</u> |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

9. Property and equipment

| | <u>Land and buildings</u> AED'000 | <u>Computers and equipment</u> AED'000 | <u>Furniture and fixtures</u> AED'000 | <u>Leasehold improvements</u> AED'000 | <u>Motor vehicles</u> AED'000 | <u>Capital work in progress</u> AED'000 | <u>Total</u> AED'000 |
|-----------------------------------|--|---|--|--|--------------------------------------|--|-------------------------|
| <i>Cost</i> | | | | | | | |
| At December 31, 2007 | 105,868 | 46,061 | 4,301 | 5,478 | 1,045 | 2,534 | 165,287 |
| Additions | - | 5,907 | 933 | 897 | 550 | 1,198 | 9,485 |
| Disposals | - | (512) | - | - | (251) | - | (763) |
| Transfer | - | 2,258 | 37 | 322 | 184 | (2,801) | - |
| At December 31, 2008 | 105,868 | 53,714 | 5,271 | 6,697 | 1,528 | 931 | 174,009 |
| Additions | 98 | 760 | 195 | 220 | - | 3,889 | 5,162 |
| Disposals | - | (36) | - | (271) | - | - | (307) |
| Transfer | 188 | 145 | 38 | 1,175 | - | (1,546) | - |
| At December 31, 2009 | <u>106,154</u> | <u>54,583</u> | <u>5,504</u> | <u>7,821</u> | <u>1,528</u> | <u>3,274</u> | <u>178,864</u> |
| <i>Accumulated depreciation</i> | | | | | | | |
| At December 31, 2007 | 27,873 | 27,607 | 2,376 | 3,398 | 517 | - | 61,771 |
| Charge for the year | 4,143 | 7,132 | 606 | 780 | 212 | - | 12,873 |
| Eliminated on disposals/transfers | - | (512) | - | - | (251) | - | (763) |
| At December 31, 2008 | 32,016 | 34,227 | 2,982 | 4,178 | 478 | - | 73,881 |
| Charge for the year | 4,155 | 7,435 | 733 | 893 | 273 | - | 13,489 |
| Eliminated on disposals/transfers | - | (18) | - | (161) | - | - | (179) |
| At December 31, 2009 | <u>36,171</u> | <u>41,644</u> | <u>3,715</u> | <u>4,910</u> | <u>751</u> | <u>-</u> | <u>87,191</u> |
| <i>Carrying amount</i> | | | | | | | |
| At December 31, 2009 | <u>69,983</u> | <u>12,939</u> | <u>1,789</u> | <u>2,911</u> | <u>777</u> | <u>3,274</u> | <u>91,673</u> |
| At December 31, 2008 | 73,852 | 19,487 | 2,289 | 2,519 | 1,050 | 931 | 100,128 |

Land and buildings include land costing AED 22.9 million (2008: AED 22.9 million) which is not depreciated.

Capital work in progress includes expenditure incurred on computers and equipments and other leasehold improvements.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

10. Other assets

| | December 31, | |
|--------------------------|---------------------|----------------|
| | 2009 | 2008 |
| | AED'000 | AED'000 |
| Interest receivable | 42,248 | 47,030 |
| Prepayments and deposits | 20,405 | 18,334 |
| Split deals | 60,634 | 22,047 |
| Others | 13,308 | 29,364 |
| | 136,595 | 116,775 |

11. Due to other banks

| | December 31, | |
|-----------------------------|---------------------|------------------|
| | 2009 | 2008 |
| | AED'000 | AED'000 |
| Term deposits | 471,121 | 847,390 |
| Demand deposits | 540 | 2,022 |
| Other borrowings | 752,965 | 1,561,025 |
| | 1,224,626 | 2,410,437 |
| By geographical area | | |
| Within UAE | 1,040,975 | 2,128,479 |
| Outside the UAE | 183,651 | 281,958 |
| | 1,224,626 | 2,410,437 |

Other borrowings at December 31, 2009 comprise outstanding loan amount of USD 205 million against sanctioned total loan amount of USD 275 million arranged through a syndicate of banks (2008: USD 150 million and USD 275 million). The Term loan is unsecured, repayable in full by May 2010 (2008: September 2009 and May 2010), and carries a floating rate of interest which is linked to 1,3 or 6 months LIBOR at the discretion of the Bank (2008: 1,3 or 6 months LIBOR).

The Bank has not defaulted in the repayment of any bank borrowings or on the payment of interest thereon.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

12. Customers' deposits

| | December 31, | |
|------------------|---------------------|----------------|
| | 2009 | 2008 |
| | AED'000 | AED'000 |
| Time deposits | 6,258,615 | 5,797,521 |
| Savings deposits | 123,098 | 111,753 |
| Current accounts | 885,167 | 821,162 |
| Margin deposits | 99,352 | 91,732 |
| | 7,366,232 | 6,822,168 |

All customers' deposits are within UAE.

13. Medium term loan

| | December 31, | |
|---|---------------------|----------------|
| | 2009 | 2008 |
| | AED'000 | AED'000 |
| Tier 2 loan from Ministry of Finance of the U.A.E | 578,453 | - |

At the Extra Ordinary General Meeting of the Shareholders held on March 18, 2009, the Shareholders approved the conversion of the deposits amounting AED 578,453,000 received from the Ministry of Finance to Tier 2 qualifying loan. Accordingly the Bank has exercised the option to convert the deposits into Tier II loan. The loan is for a period of 7 years with interest to be paid every quarter in arrears.

For regulatory purposes, the loan qualifies for the Tier II capital for the first three year period and thereafter it will be amortised at the rate of 20% per annum till maturity date for capital adequacy calculation (Note 36), if it is not repaid earlier.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

14. Other liabilities

| | <u>December 31,</u> | |
|--|-------------------------|-------------------------|
| | <u>2009</u> | <u>2008</u> |
| | <u>AED'000</u> | <u>AED'000</u> |
| Accounts payable | 21,313 | 69,699 |
| Interest payable | 53,886 | 36,956 |
| Provision for employees' end of service benefits | 18,798 | 16,924 |
| Other staff benefits | 3,373 | 3,030 |
| Other liabilities | <u>1,004,721</u> | <u>987,784</u> |
| | <u><u>1,102,091</u></u> | <u><u>1,114,393</u></u> |

Other liabilities include AED 918.25 million (equivalent of USD 250 million) received from Global Investment House - Kuwait (GIH) as advance payment on the proposed issue of bond to be converted in to 330 million shares of AED 1 each at a premium of AED 6.15 per share totaling AED 2.359 billion, entered through a Memorandum of Understanding (MOU) dated July 16, 2008. This amount is included in other liabilities without any interest attached towards it.

During December 2008, the Bank has received a letter from GIH for the cancellation of the above transaction and for refunding the advance of AED 918.25 million. On legal advice, the Bank has taken the view that GIH request is not valid and that the MOU is a binding sale purchase agreement. Accordingly, the Bank proceeded for completion of the transaction by seeking the balance due from GIH.

GIH had filed a lawsuit during 2009 in the First Instance Court of Dubai which was rejected due to arbitration clause in the MOU. The Court of Appeal has set aside the arbitration clause in the MOU stating reasons that authorised signatory from GIH who signed the MOU was not explicitly empowered by GIH to arbitrate and thus to sign an arbitration clause which was included in the MOU.

Based on the appeal filed by GIH, the Court of Appeal has decided to return the lawsuit to Court of First Instance and to judge the case based on its merits.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

14. Other liabilities (continued)

Movement in provision for employees' end of service benefits

| | <u>2009</u> AED'000 | <u>2008</u> AED'000 |
|--|------------------------|------------------------|
| At January 1 | 16,924 | 14,403 |
| Provision made during the year (Note 23) | 2,444 | 3,218 |
| Payments made during the year | (570) | (697) |
| At December 31 | <u>18,798</u> | <u>16,924</u> |

15. Share capital

At December 31, 2009, the issued and fully paid share capital comprised 1,452 million shares of AED 1 each (December 31, 2008: 1,320 million shares of AED 1 each).

During the year, the share capital of the Bank was increased by AED 132 million by the issue of bonus shares of AED 1 each (2008: AED 330 million by the issue of bonus shares and AED 330 million by right shares)

These issues of shares were approved by the Shareholders at the Annual General Meeting held on March 18, 2009.

At the Extra Ordinary General Meeting of the Shareholders held on September 25, 2008, the Shareholders approved the issuance of fully convertible bond for AED 2,359,500,000 to Global Investment House, Kuwait, to be converted into 330 million shares of AED 1 each at a premium of AED 6.15 per share (See Note 14).

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

16. Statutory reserve

In accordance with the UAE Federal Law No (8) of 1984, as amended, and the UAE Union Law No. 10 of 1980, as amended, 10% of the profit for the year is transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the paid up share capital. No profit was transferred in the current year to the statutory reserve, as it exceeds 50% of the issued share capital of the Bank. This reserve is not available for distribution.

17. General reserve

The Bank maintains a general reserve and the contributions to this reserve are made at the discretion of the Directors. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Bank at an Ordinary General Meeting.

18. Commitments and contingent liabilities

a) The contractual amounts of the Bank's commitments and contingent liabilities are as follows:

| | December 31, | |
|--|---------------------|------------|
| | 2009 | 2008 |
| | AED'000 | AED'000 |
| Guarantees | 6,648,355 | 7,056,594 |
| Letters of credit | 268,668 | 879,485 |
| Commitments to extend credit | 1,109,054 | 2,465,444 |
| Credit default swaps | 73,460 | 183,650 |
| Interest rate swaps | 183,650 | 333,650 |
| Forward exchange contracts undertaken on behalf of customers | 555,909 | 1,122,818 |
| | 8,839,096 | 12,041,641 |
| By geographical area | | |
| Within the UAE | 8,579,211 | 11,592,586 |
| Outside the UAE | 259,885 | 449,055 |
| | 8,839,096 | 12,041,641 |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

18. Commitments and contingent liabilities (continued)

Guarantees, which represent irrevocable assurances that the Bank will make payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. 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 considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

Interest Rate Swaps are commitments to exchange one set of cash flows for another. Interest rate risk result in an economic exchange of interest rates (for example, fixed rate for floating rate) or a combination of interest rates and currencies (i.e., cross currency interest rate swaps). These are done mainly on a back to back basis, on behalf of customers.

The Group sells credit protection through credit default swaps. Credit default swaps provide protection against the decline in value of a referenced asset as a result of credit events such as default or bankruptcy. It is similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap in return for payment related to the deterioration in value of the referenced asset. These are done mainly on a back to back basis, on behalf of customers.

Forward foreign exchange contracts comprise commitments to purchase foreign currencies on behalf of customers, including undelivered spot transactions. These are done mainly on a back to back basis.

b) Capital commitments

At December 31, 2009, the Bank has capital commitments of AED 3.97 million (2008: AED 2.3 million).

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

19. Interest income and expense

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|---|---|
| | AED'000 | AED'000 |
| Interest income | | |
| Loans and receivables | | |
| Loans and advances | 764,466 | 521,351 |
| Deposits with the UAE Central Bank | 3,668 | 26,900 |
| Other banks | 12,916 | 20,350 |
| Investment in debt securities | 18,517 | 14,744 |
| | 799,567 | 583,345 |
| | ===== | ===== |
| Interest expense | | |
| Financial liabilities at amortised cost | | |
| Customers' deposits | 176,177 | 78,757 |
| Borrowings from other banks | 31,241 | 83,600 |
| | 207,418 | 162,357 |
| | ===== | ===== |

20. Other operating income

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|-------------------------------|---|---|
| | AED'000 | AED'000 |
| Rental income | 11,031 | 10,115 |
| Foreign exchange income – net | 7,757 | 29,006 |
| Others | 465 | 5,161 |
| | 19,253 | 44,282 |
| | ===== | ===== |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

21. Operating expenses

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|------------------------------|---|------------------------------------|
| | <u>AED'000</u> | <u>AED'000</u> |
| Staff costs (Note 23) | 82,731 | 78,925 |
| Occupancy costs | 16,596 | 13,637 |
| Depreciation (Note 9) | 13,489 | 12,873 |
| Staff benefits (Note 23) | 7,447 | 7,818 |
| Fees and commission expenses | 4,306 | 5,199 |
| Others | <u>29,502</u> | <u>51,069</u> |
| | <u>154,071</u> | <u>169,521</u> |

22. Investment losses

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|---|------------------------------------|
| | <u>AED'000</u> | <u>AED'000</u> |
| Dividend income | | |
| a) Investment securities available-for-sale | 1,610 | 1,056 |
| b) Investment securities at fair value through profit and loss - held for trading | 1,572 | 7,415 |
| Fair value loss on investment securities at fair value through profit and loss - held for trading | (6,576) | (78,842) |
| Impairment loss on investment securities available-for-sale | (48,103) | (12,406) |
| Discount amortised on debt securities | 3,148 | 1,467 |
| Profit/(loss) on sale of investments | | |
| a) Investment securities available-for-sale | 10,267 | (4,050) |
| b) Investment securities at fair value through profit and loss - held for trading | - | (200) |
| c) Investment securities – Held to maturity | <u>582</u> | <u>-</u> |
| | <u>(37,500)</u> | <u>(85,560)</u> |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

23. Staff costs

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|-----------------------------------|---|------------------------------------|
| | <u>AED'000</u> | <u>AED'000</u> |
| Staff costs | | |
| Salaries and allowances | 81,511 | 77,717 |
| Staff training | 671 | 715 |
| Housing and medical | 549 | 493 |
| | 82,731 | 78,925 |
| Staff benefits | | |
| Pension | 3,411 | 2,923 |
| End of service benefits (Note 14) | 2,444 | 3,218 |
| Others | 1,592 | 1,677 |
| | 7,447 | 7,818 |

24. Basic earnings per share

The basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of ordinary shares in issue during the year. In accordance with IAS 33 "Earnings per Share", the impact of bonus shares issued has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|-----------------------------------|---|------------------------------------|
| Profit for the year in AED | 341,071,000 | 283,665,000 |
| Average number of shares in issue | 1,452,000,000 | 1,452,000,000 |
| Basic earnings per share in AED | 0.23 | 0.20 |

There were no potentially dilutive shares as at December 31, 2009 and 2008.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

25. Dividend per share

At the Board meeting held on January 28, 2010 the Board of Directors proposed a cash dividend of 20% amounting to AED 290.4 million in respect of the year ended December 31, 2009 (2008: cash dividend amounting to 132 million and share dividend of 10% amounting to AED 132 million).

The above proposed dividend was revised based on the instructions of the Central Bank of UAE which limited the cash dividend of the national banks in UAE within 50% of the profit for the year 2009. The Board of Directors accordingly revised the dividend to 12% cash dividend amounting to AED 174.24 million along with 8% share dividend amounting to AED 116.16 million (see Note 37). This will be accounted for in the consolidated financial statements of the Bank in the year ending December 31, 2010. This proposal is subject to the approval of the Shareholders.

26. Related party transactions

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, and all Directors of the Bank and companies in which such shareholders and Directors have a significant interest and key management personnel of the Bank. During the year, the Bank entered into the following significant transactions with related parties in the ordinary course of business.

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|---|------------------------------------|
| | AED'000 | AED'000 |
| Interest income | 42,979 | 22,441 |
| Interest expense | 13,481 | 921 |
| Remuneration of key management personnel | 5,073 | 5,413 |
| Other income | 14 | 3,327 |
| Directors' fees | 1,100 | 700 |

Outstanding balances at the balance sheet date from transactions with related parties are as follows:

| | December 31, | |
|--|---------------------|---------|
| | 2009 | 2008 |
| | AED'000 | AED'000 |
| Loans and advances | 634,888 | 813,726 |
| Customer deposits | 294,340 | 122,212 |
| Irrevocable commitments and contingent liabilities | 116,273 | 217,909 |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

27. Cash and cash equivalents

| | December 31, | |
|---|---------------------|----------------|
| | 2009 | 2008 |
| | AED'000 | AED'000 |
| Cash in hand and balances with UAE Central bank(Note 5) | 3,488,956 | 399,740 |
| Term and demand deposits with other banks (Note 6) | 802,759 | 2,109,518 |
| Statutory deposits | (233,909) | (241,650) |
| Loans to banks with original maturity over 3 months | (29,384) | (36,730) |
| | 4,028,422 | 2,230,878 |

28. Business segments

The new standard which replaced IAS 14 'Segment reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in any significant change to the reportable segments presented by the Bank as the segments reported by the Bank were consistent with the internal reporting provided to the chief operating decision maker.

The Bank is organised into two main business segments:

Retail and corporate banking - wherein retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages and corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Treasury and others - incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the UAE Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income and expense arising between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

28. Business segments (continued)

Primary segment information

| | Retail and corporate banking | Treasury and others | Total |
|--------------------------|---|--------------------------------|--------------------------|
| | <u>AED'000</u> | <u>AED'000</u> | <u>AED'000</u> |
| December 31, 2009 | | | |
| Gross income | <u>839,966</u> | <u>47,585</u> | <u>887,551</u> |
| Segment result | <u>363,668</u> | <u>(29,208)</u> | <u>334,460</u> |
| Unallocated income | | | <u>6,611</u> |
| Profit for the year | | | <u>341,071</u> |
| Segment assets | <u>8,252,890</u> | <u>5,540,336</u> | <u>13,793,226</u> |
| Unallocated assets | | | <u>91,673</u> |
| Total assets | | | <u>13,884,899</u> |
| Segment liabilities | <u>6,777,190</u> | <u>3,175,679</u> | <u>9,952,869</u> |
| Unallocated liabilities | | | <u>919,446</u> |
| Total liabilities | | | <u>10,872,315</u> |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

28. Business segments (continued)

Primary segment information (continued)

| | Retail and corporate banking <u>AED'000</u> | Treasury and others <u>AED'000</u> | <u>Total</u> <u>AED'000</u> |
|-------------------------|--|--|--------------------------------|
| December 31, 2008 | | | |
| Gross income | <u>608,474</u> | <u>105,703</u> | <u>714,177</u> |
| Segment result | <u>252,850</u> | <u>24,754</u> | 277,604 |
| Unallocated income | | | <u>6,061</u> |
| Profit for the year | | | 283,665 |
| Segment assets | <u>9,964,508</u> | <u>3,478,220</u> | 13,442,728 |
| Unallocated assets | | | <u>100,128</u> |
| Total assets | | | 13,542,856 |
| Segment liabilities | <u>6,303,787</u> | <u>3,537,772</u> | 9,841,559 |
| Unallocated liabilities | | | <u>919,149</u> |
| Total liabilities | | | 10,760,708 |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

29. Classification and fair value of financial instruments

| Assets | <u>Loans and receivables</u> AED'000 | <u>Held-to- maturity</u> AED'000 | <u>Held for trading</u> AED'000 | <u>Available- for-sale</u> AED'000 | <u>Non-financial instruments</u> AED'000 | <u>Total</u> AED'000 |
|-----------------------------------|---|---|--|---|---|-------------------------|
| December 31, 2009 | | | | | | |
| Cash and balances with the UAE | | | | | | |
| Central Bank | 3,488,956 | - | - | - | - | 3,488,956 |
| Due from other banks | 802,759 | - | - | - | - | 802,759 |
| Loans and advances | 8,287,589 | - | - | - | - | 8,287,589 |
| Investment securities | - | 253,893 | 28,470 | 194,051 | - | 476,414 |
| Customers' acceptances | 600,913 | - | - | - | - | 600,913 |
| Property and equipment | - | - | - | - | 91,673 | 91,673 |
| Other assets | - | - | - | - | 136,595 | 136,595 |
| Total assets | 13,180,217 | 253,893 | 28,470 | 194,051 | 228,268 | 13,884,899 |
| December 31, 2008 | | | | | | |
| Cash and balances with the UAE | | | | | | |
| Central Bank | 399,740 | - | - | - | - | 399,740 |
| Due from other banks | 2,109,518 | - | - | - | - | 2,109,518 |
| Loans and advances | 9,848,246 | - | - | - | - | 9,848,246 |
| Investment securities | - | 378,413 | 92,781 | 83,545 | - | 554,739 |
| Customers' acceptances | 413,710 | - | - | - | - | 413,710 |
| Property and equipment | - | - | - | - | 100,128 | 100,128 |
| Other assets | - | - | - | - | 116,775 | 116,775 |
| Total assets | 12,771,214 | 378,413 | 92,781 | 83,545 | 216,903 | 13,542,856 |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

29. Classification and fair value of financial instruments (continued)

| Liabilities | <u>At amortised cost</u> AED'000 | <u>Non- financial instruments</u> AED'000 | <u>Total</u> AED'000 |
|--------------------------|---|--|--------------------------|
| December 31, 2009 | | | |
| Due to other banks | 1,224,626 | - | 1,224,626 |
| Customers' deposits | 7,366,232 | - | 7,366,232 |
| Customers' acceptances | 600,913 | - | 600,913 |
| Medium Term Loans | 578,453 | - | 578,453 |
| Other liabilities | <u>-</u> | <u>1,102,091</u> | <u>1,102,091</u> |
| Total liabilities | <u>9,770,224</u> | <u>1,102,091</u> | <u>10,872,315</u> |
| December 31, 2008 | | | |
| Due to other banks | 2,410,437 | - | 2,410,437 |
| Customers' deposits | 6,822,168 | - | 6,822,168 |
| Customers' acceptances | 413,710 | - | 413,710 |
| Other liabilities | <u>-</u> | <u>1,114,393</u> | <u>1,114,393</u> |
| Total liabilities | <u>9,646,315</u> | <u>1,114,393</u> | <u>10,760,708</u> |

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

29. Classification and fair value of financial instruments (continued)

| | <u>Level 1</u> AED '000 | <u>Level 2</u> AED '000 | <u>Level 3</u> AED '000 | <u>Total</u> AED '000 |
|--|----------------------------|----------------------------|----------------------------|--------------------------|
| Financial assets at FVTPL | | | | |
| Assets held for trading | 28,470 | - | - | 28,470 |
| Available-for-sale financial assets | | | | |
| Quoted equities | 36,115 | - | - | 36,115 |
| Unquoted equities | - | 6,757 | - | 6,757 |
| Quoted debt instruments | <u>151,179</u> | <u>-</u> | <u>-</u> | <u>151,179</u> |
| | 215,764 | 6,757 | - | 222,521 |
| | ===== | ===== | ===== | ===== |

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in above table.

30. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

30. Financial risk management (continued)

Credit risk

The Bank assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances, due from banks and investment securities. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees and undrawn loan commitments. The credit risk management and control are centralised in the Credit Risk Department with the following objectives:

- To measure, monitor and mitigate risks both at micro as well as macro level.
- To facilitate building and sustaining a high quality credit portfolio and minimise losses.
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has been reorganised to include units for customer rating, remedial management and risk containment. The Bank is in the process of setting up the internal risk rating systems to comply with IRB Foundation norms of Basel II. Remedial management and risk containment units are functioning to prevent accretion of non-performing assets through timely action and maximise recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 31 summarises the Bank's exposure to credit risk.

Credit Risk Mitigation

Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Bank in case of default. Such mitigants are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Bank are land and building, listed equity shares, fixed deposits under lien, vehicles etc.

Other comforts - personal guarantees and corporate guarantees are also taken as comfort, wherever deemed essential.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

30. Financial risk management (continued)

Market risk

Market risk for the Bank refers to the risk because of which the value of its on or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and investment prices. Thus the volatility in market level of interest rates, foreign exchange rates and investment prices expose the Bank's earnings and capital to risk.

The market risk department of the Bank addresses these risks to the Assets and Liability Committee (ALCO) on a regular basis based on stipulated norms for Asset Liability Management and Investments. The ALCO takes corrective measures as per the Bank's internal market risk policies and strategic business directions.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury so as to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management on a daily basis. The Bank's ALCO has put in place the policies to manage the liquidity risk and monitor the position regularly. Note 32 summarises the Bank's exposure to liquidity risk.

Interest rate risk

Interest rate risk is the potential that changes in interest rates may adversely affect the value of a financial instrument or portfolio, or the condition of the Bank as a whole. Although interest-rate risk arises in all types of financial instruments, it is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset, and other derivatives whose values are linked to market interest rates. In general, the values of longer-term instruments are often more sensitive to interest-rate changes than the values of shorter-term instruments. A part of interest rate risk can be labelled as yield curve risk, which refers to the imperfect correlation of interest rates of different maturities.

The Bank manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income ("NII"). The Bank analyses its interest rate sensitivity position based on the contractual repricing or maturity dates, whichever is earlier, regularly. The impact on the sensitivity position is calculated by way of 50 basis points ("bps") change in interest rates and resultant effect in the net interest income of the Bank. It is controlled through the limit prescribed for the same. Note 33 summarises the Bank's exposure to interest rate risk.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

30. Financial risk management (continued)

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored by the Treasury Department. Note 34 summarises the Bank's exposure to foreign currency exchange risk.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objective of the Bank. While operational risk cannot be fully eliminated, management endeavour to minimise the losses by ensuring effective infrastructure, controls, systems and individuals are in place throughout the organisation.

To accomplish the above objective, the Bank has dedicated operational risk management function, which is proactive in developing and implementing new methodologies for the identification, assessment, monitoring, and control of operational risk. The Bank is developing systems and procedures with clear segregation of duties and reporting line to reduce operational risk. Compliance with the guidelines is monitored through robust internal control and comprehensive audit system.

The Bank is currently implementing under noted processes aimed at monitoring, and mitigating operational risks.

- Bottom up approach (Risk and Control Assessment) for identification and assessment of operational risks at all business units.
- Establishing a centralised database for capturing operational risk losses.
- Developing a comprehensive Business Contingency and Continuity Plan to anticipate stress situations and mitigate the risk associated with them.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

31. Credit risk

Asset quality and ageing as on December 31, 2009

| | <u>Due from other banks</u> AED'000 | <u>Loans and advances</u> AED'000 | <u>Investment in securities</u> AED'000 |
|---|--|--|--|
| Impaired | | | |
| Substandard | - | 226,453 | - |
| Doubtful | 80,806 | 78,592 | 34,185 |
| Loss | - | 36,077 | - |
| | <u>80,806</u> | <u>341,122</u> | <u>34,185</u> |
| Specific allowance for impairment | (80,806) | (124,274) | (17,092) |
| | - | 216,848 | 17,093 |
| | ===== | ===== | ===== |
| | | | |
| | <u>Due from other banks</u> AED'000 | <u>Loans and advances</u> AED'000 | <u>Investment in securities</u> AED'000 |
| Amount past due but not impaired | | | |
| Past due above 60 days | - | 73,889 | - |
| Past due less than 60 days | - | 152,105 | - |
| | <u>-</u> | <u>225,994</u> | <u>-</u> |
| | ===== | ===== | ===== |
| Neither past due nor impaired | 802,759 | 7,924,418 | 459,321 |
| Collective allowances for impairment | - | (79,671) | - |
| | <u>802,759</u> | <u>7,844,747</u> | <u>459,321</u> |
| | ===== | ===== | ===== |
| Carrying amount | 802,759 | 8,287,589 | 476,414 |
| | ===== | ===== | ===== |

Total collateral value is AED 9,942 million (2008: AED 9,916 million) against secured loans and advances of AED 5,506 million (2008: AED 5,729 million). The fair value of collaterals on impaired loans is estimated to AED 184.4 million (2008: AED 60 million)

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

31. Credit risk (continued)

Asset quality and ageing as on December 31, 2008

| | <u>Due from other banks</u> AED'000 | <u>Loans and advances</u> AED'000 | <u>Investment in securities</u> AED'000 |
|---|--|--|--|
| Impaired | | | |
| Substandard | - | 31,398 | - |
| Doubtful | - | 34,237 | - |
| Loss | - | 33,150 | - |
| | - | 98,785 | - |
| Specific allowance for impairment | - | (62,205) | - |
| | - | 36,580 | - |
| | ===== | ===== | ===== |
| | <u>Due from other banks</u> AED'000 | <u>Loans and advances</u> AED'000 | <u>Investment in securities</u> AED'000 |
| Amount past due but not impaired | | | |
| Past due above 60 days | - | 111,382 | - |
| Past due less than 60 days | - | 266,179 | - |
| | - | 377,561 | - |
| | ===== | ===== | ===== |
| Neither past due nor impaired | 2,109,518 | 9,517,175 | 554,739 |
| Collective allowances for impairment | - | (83,070) | - |
| | 2,109,518 | 9,434,105 | 554,739 |
| | ===== | ===== | ===== |
| Carrying amount | 2,109,518 | 9,848,246 | 554,739 |
| | ===== | ===== | ===== |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

31. Credit risk (continued)

Geographical concentration of assets

December 31, 2009

| | <u>Due from other banks</u> AED'000 | <u>Loans and advances</u> AED'000 | <u>Investment in securities</u> AED'000 |
|----------------------|--|--|--|
| Within U.A.E. | 706,030 | 8,253,329 | 276,890 |
| Within GCC countries | 19,497 | 34,260 | 199,485 |
| Other countries | <u>77,232</u> | <u>-</u> | <u>39</u> |
| | 802,759 | 8,287,589 | 476,414 |
| | ===== | ===== | ===== |

December 31, 2008

| | <u>Due from other banks</u> AED'000 | <u>Loans and advances</u> AED'000 | <u>Investment in securities</u> AED'000 |
|----------------------|--|--|--|
| Within U.A.E. | 1,998,823 | 9,803,575 | 259,267 |
| Within GCC countries | 27,133 | 44,671 | 295,433 |
| Other countries | <u>83,562</u> | <u>-</u> | <u>39</u> |
| | 2,109,518 | 9,848,246 | 554,739 |
| | ===== | ===== | ===== |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

31. Credit risk (continued)

Rated and unrated exposure (continued)

Exposure risk category-wise

| Risk category | December 31, | |
|----------------------------|-------------------|-------------------|
| | 2009 AED'000 | 2008 AED'000 |
| Below 100% risk weight | 9,981,657 | 8,776,492 |
| 100 % risk weight | 12,160,597 | 16,566,467 |
| More than 100% risk weight | 948,111 | 324,642 |
| | 23,090,365 | 25,667,601 |

32. Liquidity risk

Maturity profile

Assets

December 31, 2009

| | <u>Upto 1 month</u> AED'000 | <u>1 month - 3 months</u> AED'000 | <u>3 months - 1 year</u> AED'000 | <u>1 year - 5 years</u> AED'000 | <u>Over 5 years</u> AED'000 | <u>Total</u> AED'000 |
|-----------------------------------|------------------------------------|--|---|--|------------------------------------|-------------------------|
| Cash and balances with the UAE | | | | | | |
| Central Bank | 3,255,047 | - | - | 233,909 | - | 3,488,956 |
| Due from other banks | 773,375 | - | - | 29,384 | - | 802,759 |
| Loans and advances | 1,065,611 | 373,883 | 1,542,006 | 4,575,237 | 730,852 | 8,287,589 |
| Investment securities | 21,403 | 67,892 | 92,815 | 176,815 | 117,489 | 476,414 |
| Customers' acceptances | 70,550 | 442,137 | 87,599 | 627 | - | 600,913 |
| Property and equipment | - | - | - | 45,836 | 45,837 | 91,673 |
| Other assets | 42,248 | - | 94,347 | - | - | 136,595 |
| Total | 5,228,234 | 883,912 | 1,816,767 | 5,061,808 | 894,178 | 13,884,899 |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

32. Liquidity risk (continued)

Maturity profile (continued)

Assets (continued)

Assets

December 31, 2008

| | <u>Upto 1 month</u> AED'000 | <u>1 month - 3 months</u> AED'000 | <u>3 months - 1 year</u> AED'000 | <u>1 year - 5 years</u> AED'000 | <u>Over 5 years</u> AED'000 | <u>Total</u> AED'000 |
|-----------------------------------|------------------------------------|--|---|--|------------------------------------|-------------------------|
| Cash and balances with the UAE | | | | | | |
| Central Bank | 158,090 | - | - | 241,650 | - | 399,740 |
| Due from other banks | 1,988,363 | 6,354 | 85,417 | 29,384 | - | 2,109,518 |
| Loans and advances | 1,278,257 | 586,684 | 1,794,113 | 5,392,678 | 796,514 | 9,848,246 |
| Investment securities | 50,535 | - | 117,915 | 287,464 | 98,825 | 554,739 |
| Customers' acceptances | 121,106 | 151,628 | 61,357 | 79,619 | - | 413,710 |
| Property and equipment | - | - | - | 50,064 | 50,064 | 100,128 |
| Other assets | <u>46,997</u> | <u>-</u> | <u>69,778</u> | <u>-</u> | <u>-</u> | <u>116,775</u> |
| Total | <u>3,643,348</u> | <u>744,666</u> | <u>2,128,580</u> | <u>6,080,859</u> | <u>945,403</u> | <u>13,542,856</u> |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

32. Liquidity risk (continued)

Maturity profile (continued)

Liabilities, equity and off balance sheet items

December 31, 2009

| | <u>Upto 1 month</u> AED'000 | <u>1 month - 3 months</u> AED'000 | <u>3 months - 1 year</u> AED'000 | <u>1 year - 5 years</u> AED'000 | <u>Over 5 years</u> AED'000 | <u>Total</u> AED'000 |
|--|------------------------------------|--|---|--|------------------------------------|--------------------------|
| Due to other banks | 46,540 | - | 976,071 | 202,015 | - | 1,224,626 |
| Customers' deposits | 1,607,571 | 741,227 | 2,052,201 | 2,964,919 | 314 | 7,366,232 |
| Customers' acceptances | 70,550 | 442,137 | 87,599 | 627 | - | 600,913 |
| Medium term loan | - | - | - | - | 578,453 | 578,453 |
| Other liabilities | 69,594 | 72,223 | 42,024 | 918,250 | - | 1,102,091 |
| Shareholders' equity | - | 341,071 | 193,807 | - | 2,477,706 | 3,012,584 |
| A Total on-balance sheet items | <u>1,794,255</u> | <u>1,596,658</u> | <u>3,351,702</u> | <u>4,085,811</u> | <u>3,056,473</u> | <u>13,884,899</u> |
| Forward sale | 96,820 | 91,825 | - | 367,264 | - | 555,909 |
| Guarantees | 594 | - | 1,782 | - | - | 2,376 |
| Unavailed limits | <u>583,564</u> | <u>53,000</u> | <u>441,939</u> | <u>-</u> | <u>-</u> | <u>1,078,503</u> |
| B Total off-balance sheet items | <u>680,978</u> | <u>144,825</u> | <u>443,721</u> | <u>367,264</u> | <u>-</u> | <u>1,636,788</u> |
| Grand total [A+B] | <u>2,475,233</u> | <u>1,741,483</u> | <u>3,795,423</u> | <u>4,453,075</u> | <u>3,056,473</u> | <u>15,521,687</u> |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

32. Liquidity risk (continued)

Maturity profile (continued)

Liabilities, equity and off balance sheet items (continued)

December 31, 2008

| | Upto 1 month <u>AED'000</u> | 1 month - 3 months <u>AED'000</u> | 3 months - 1 year <u>AED'000</u> | 1 year - 5 years <u>AED'000</u> | Over 5 years <u>AED'000</u> | <u>Total AED'000</u> |
|--|-----------------------------------|---|--|---------------------------------------|-----------------------------------|--------------------------|
| Due to other banks | 71,098 | - | 870,139 | 1,469,200 | - | 2,410,437 |
| Customers' deposits | 1,740,353 | 725,580 | 1,043,807 | 3,312,252 | 176 | 6,822,168 |
| Customers' acceptances | 121,106 | 151,628 | 61,357 | 79,619 | - | 413,710 |
| Other liabilities | 59,861 | 52,121 | 84,161 | 918,250 | - | 1,114,393 |
| Shareholders' equity | - | <u>132,000</u> | <u>304,442</u> | - | <u>2,345,706</u> | <u>2,782,148</u> |
| A Total on-balance sheet items | <u>1,992,418</u> | <u>1,061,329</u> | <u>2,363,906</u> | <u>5,779,321</u> | <u>2,345,882</u> | <u>13,542,856</u> |
| Forward sale | 179,937 | 88,235 | 670,996 | 183,650 | - | 1,122,818 |
| Guarantees | 594 | - | 1,782 | - | - | 2,376 |
| Unavailed limits | <u>1,191,087</u> | <u>186,804</u> | <u>245,215</u> | - | - | <u>1,623,106</u> |
| B Total off- balance sheet items | <u>1,371,618</u> | <u>275,039</u> | <u>917,993</u> | <u>183,650</u> | - | <u>2,748,300</u> |
| Grand total [A+B] | <u>3,364,036</u> | <u>1,336,368</u> | <u>3,281,899</u> | <u>5,962,971</u> | <u>2,345,882</u> | <u>16,291,156</u> |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

33. Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

| | <u>Less than 3 months</u> AED'000 | <u>From 3 months to 1 year</u> AED'000 | <u>Over 1 year</u> AED'000 | <u>Non- interest bearing</u> AED'000 | <u>Total</u> AED'000 |
|---|--|---|-----------------------------------|---|-------------------------|
| At December 31, 2009 | | | | | |
| Financial assets | | | | | |
| Cash and balances with the | | | | | |
| UAE Central bank | 3,050,000 | - | - | 438,956 | 3,488,956 |
| Due from other banks | 732,284 | - | - | 70,475 | 802,759 |
| Loans and advances | 972,741 | 1,470,172 | 5,701,009 | 143,667 | 8,287,589 |
| Investment securities | 251,327 | 42,875 | 93,777 | 88,435 | 476,414 |
| Customers' acceptances | - | - | - | 600,913 | 600,913 |
| Total | 5,006,352 | 1,513,047 | 5,794,786 | 1,342,446 | 13,656,631 |
| Financial liabilities | | | | | |
| Due to other banks | 1,224,086 | - | - | 540 | 1,224,626 |
| Customers' deposits | 1,840,011 | 1,250,441 | 38,343 | 4,237,437 | 7,366,232 |
| Customers' acceptances | - | - | - | 600,913 | 600,913 |
| Medium term loan | - | - | 578,453 | - | 578,453 |
| Total | 3,064,097 | 1,250,441 | 616,796 | 4,838,890 | 9,770,224 |
| On balance sheet interest rate sensitivity gap | 1,942,255 | 262,606 | 5,177,990 | (3,496,444) | 3,886,407 |
| At December 31, 2008 | | | | | |
| Total financial assets | 9,926,572 | 761,310 | 1,447,136 | 1,190,935 | 13,325,953 |
| Total financial liabilities | 4,033,599 | 831,452 | 599,064 | 4,182,200 | 9,646,315 |
| On balance sheet interest rate sensitivity gap | 5,892,973 | (70,142) | 848,072 | (2,991,265) | 3,679,638 |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

33. Interest rate risk (continued)

Rate sensitivity analysis

At the reporting date if interest rates had been 50 bps higher/lower and all the other variables were held constant, the Bank's:

- Net interest income would have increased/decreased by AED 9.4 million (2008: AED 29 million).
- Other equity reserves would have decreased/increased by AED 64.74 million (2008: AED 21.5 million).

Method and assumptions for sensitivity analysis

- Interest rate may fluctuate by a reasonable +/- 50 bps.
- A 50 bps change is used to give a realistic assessment vis-à-vis prevailing interest rates on the balance sheet date.
- Interest rate change takes place uniformly across all time buckets upto 1 year for net interest income impact.
- Interest rate change takes place at the mid point of each time bucket.
- Other parameters remain unchanged.
- Impact on net interest income upto next 1 year is worked out.
- For impact on equity, weighted modified duration of Rate Sensitive Assets ("RSA") and Rate Sensitive Liabilities ("RSL") for all buckets has been worked out and its net impact calculated.
- RSA and RSL have been captured based on earlier of the re-pricing or maturity.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

34. Currency risk

Concentration of assets and liabilities by currency:

| | <u>AED</u> AED'000 | <u>USD</u> AED'000 | <u>Others</u> AED'000 | <u>Total</u> AED'000 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| At December 31, 2009 | | | | |
| Financial assets | | | | |
| Cash and balances with the UAE Central Bank | 3,473,402 | 15,554 | - | 3,488,956 |
| Due from other banks | 493,130 | 64,338 | 245,291 | 802,759 |
| Loans and advances | 8,285,491 | - | 2,098 | 8,287,589 |
| Investment securities | 182,865 | 232,346 | 61,203 | 476,414 |
| Customers' acceptances | <u>600,913</u> | <u>-</u> | <u>-</u> | <u>600,913</u> |
| Total financial assets | <u>13,035,801</u> | <u>312,238</u> | <u>308,592</u> | <u>13,656,631</u> |
| Financial liabilities | | | | |
| Due to other banks | 85,995 | 1,138,630 | 1 | 1,224,626 |
| Customers' deposits | 7,084,061 | 40,387 | 241,784 | 7,366,232 |
| Medium term loan | 578,453 | - | - | 578,453 |
| Customers' acceptances | <u>600,913</u> | <u>-</u> | <u>-</u> | <u>600,913</u> |
| Total financial liabilities | <u>8,349,422</u> | <u>1,179,017</u> | <u>241,785</u> | <u>9,770,224</u> |
| Net balance sheet position | <u>4,686,379</u> | <u>(866,779)</u> | <u>66,807</u> | <u>3,886,407</u> |
| Off balance sheet position | <u>8,063,549</u> | <u>710,992</u> | <u>64,555</u> | <u>8,839,096</u> |
| At December 31, 2008 | | | | |
| Total financial assets | <u>12,674,067</u> | <u>251,858</u> | <u>400,028</u> | <u>13,325,953</u> |
| Total financial liabilities | <u>7,062,380</u> | <u>2,159,731</u> | <u>424,204</u> | <u>9,646,315</u> |
| Net balance sheet position | <u>5,611,687</u> | <u>(1,907,873)</u> | <u>(24,176)</u> | <u>3,679,638</u> |
| Off balance sheet position | <u>10,544,341</u> | <u>989,621</u> | <u>507,679</u> | <u>12,041,641</u> |

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

34. Currency risk (continued)
Rate sensitivity analysis

Year 2009

| | <u>Foreign currency assets</u> AED '000 | <u>Foreign currency liabilities</u> AED'000 | <u>Net forward purchase/ (sale)</u> AED'000 | <u>Net long/ (short) position</u> AED'000 | <u>Impact on statement of income and equity</u> AED'000 |
|--------------------------|--|--|--|--|--|
| Pegged Currencies | | | | | |
| US Dollar | 411,862 | 1,277,811 | - | (865,949) | 17,319 |
| Saudi Riyal | 26,325 | - | - | 26,325 | (527) |
| Bahrain Dinar | 210 | - | - | 210 | (4) |
| Omani Riyal | 332 | - | - | 332 | (6) |
| Qatar Riyal | 27 | - | - | 27 | - |
| Other Currencies | | | | | |
| Kuwait Dinar | 35,441 | - | - | 35,441 | (3,544) |
| Great British Pound | 29,969 | 29,874 | - | 95 | (10) |
| Euro | 212,713 | 212,502 | 10 | 221 | (22) |
| Swiss Frank | 523 | 419 | - | 104 | (10) |
| Japanese Yen | 2,295 | 50 | (1,312) | 933 | (93) |
| Indian Rupee | 27 | 1 | - | 26 | (3) |
| Lankan Rupee | - | 2 | 10 | 8 | (1) |
| Jordanian Dinar | 98 | 1,175 | - | 98 | (10) |
| Canadian Dollar | 1,215 | - | - | 40 | (4) |
| | <u>721,037</u> | <u>1,521,834</u> | <u>(1,292)</u> | <u>(802,089)</u> | |

Total impact if foreign currency fluctuates against AED

+/-13,085

Year 2008

| | <u>Foreign currency assets</u> AED'000 | <u>Foreign currency liabilities</u> AED'000 | <u>Net forward purchase/ (sale)</u> AED'000 | <u>Net long/ (short) position</u> AED'000 | <u>Impact on statement of income and equity</u> AED'000 |
|--------------------------|---|--|--|--|--|
| Pegged Currencies | | | | | |
| US Dollar | 253,957 | 2,167,740 | 525,239 | (1,388,544) | 27,771 |
| Saudi Riyal | 24,627 | 99,032 | 97,973 | 23,568 | (471) |
| Bahrain Dinar | 506 | - | - | 506 | (10) |
| Omani Riyal | 238 | - | - | 238 | (5) |
| Qatar Riyal | 121 | - | - | 121 | (2) |
| Other Currencies | | | | | |
| Kuwait Dinar | 100,234 | - | - | 100,234 | (10,023) |
| Great British Pound | 12,468 | 25,278 | 10,590 | (2,220) | 222 |
| Euro | 258,232 | 300,880 | 44,602 | 1,954 | (195) |
| Swiss Frank | 160 | 42 | - | 118 | (11) |
| Japanese Yen | 2,830 | 2,242 | - | 588 | (59) |
| Indian Rupee | 21 | 2 | - | 19 | (2) |
| Lankan Rupee | 6 | 1 | - | 5 | (1) |
| Jordanian Dinar | 134 | - | - | 134 | (13) |
| Canadian Dollar | 301 | 1 | - | 300 | (30) |
| | <u>653,835</u> | <u>2,595,218</u> | <u>678,404</u> | <u>(1,262,979)</u> | |

Total impact if foreign currency fluctuates against AED

+/-17,171

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

34. Currency risk (continued)

Rate sensitivity analysis (continued)

- Currencies are divided into two categories i) those pegged with USD and ii) all other currencies as on the balance sheet date.
- Exchange rate fluctuation of 2% in AED against the respective pegged foreign currencies and exchange rate fluctuation of 10% in AED against the respective other foreign currencies have been used to give a realistic assessment as a plausible event.
- Based on these changes the impact on profit or loss and equity has been worked out.

35. Equity price risk

Sensitivity analysis

At the balance sheet date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Bank's:

- Statement of income/equity would have increased/decreased by AED 7.13 million (2008: AED 16.85 million).

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the balance sheet date.
- As at the balance sheet date if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009

36. Capital management

Bank's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Bank's future dividend policy. The Bank also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. During the year the Bank had complied in full with all external imposed capital requirements. The UAE Central Bank requires the banks in UAE to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 11%.

Capital structure

The table below details the regulatory capital resources of the Bank:

| | December 31, | |
|--|-------------------------|------------------|
| | <u>2009</u> | <u>2008</u> |
| | AED'000 | AED'000 |
| Tier 1 Capital | | |
| Share capital | 1,452,000 | 1,320,000 |
| Statutory reserve | 1,019,266 | 1,019,266 |
| General reserve | 6,440 | 6,440 |
| Fair value reserve on investment securities available-for-sale | (3,845) | (25,210) |
| Retained earnings | <u>538,723</u> | <u>461,652</u> |
| Total Tier 1 | <u>3,012,584</u> | <u>2,782,148</u> |
| Tier 2 Capital | | |
| General reserves on unclassified loans and advances to customers | 79,671 | 83,070 |
| Medium term loan | <u>578,453</u> | <u>-</u> |
| Total Tier 2 | <u>658,124</u> | <u>83,070</u> |
| Total Regulatory Capital | <u>3,670,708</u> | <u>2,865,218</u> |
| | ===== | ===== |

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2009**

37. Subsequent event

Subsequent to the Board of Directors approval on the consolidated financial statements on January 28, 2010, the Board of Directors amended their recommendation regarding the proposed cash dividend from 20% amounting to AED 290.4 million to 12% cash dividend amounting to AED 174.24 million along with 8% bonus share issue amounting to AED 116.16 million based on the instructions of the Central Bank of UAE which limited the cash dividend of the national banks in UAE within 50% of the profit for year 2009. Accordingly, the previously issued consolidated financial statements on January 28, 2010 were recalled.

38. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on February 21, 2010.