Abu Dhabi Islamic Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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31 December 2009

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ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI ISLAMIC BANK PJSC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Islamic Bank PJSC ('the Bank') and its subsidiaries ('the Group') as at 31 December 2009, comprising of the consolidated statement of financial position, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Bank and the UAE Commercial Companies Law of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

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

Report on Other Legal and Regulatory Requirements
We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Bank; proper books of account have been kept by the Group, and the contents of the Chairman's Report relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE. Commercial Companies Law of 1984 (as amended) or the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Group or on its financial position.

Ernst & Young

Signed by:
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

14 February 2010
Abu Dhabi

CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2009

	Notes	*2009* *AED '000*	*2008* *AED '000*
OPERATING INCOME			
Income from Murabaha, Mudaraba and Wakala with financial institutions, net		**344,484**	396,181
Income from Murabaha, Mudaraba, Ijara and other Islamic financing, net	5	**2,742,044**	2,177,790
Investment income	6	**39,498**	70,792
Share of results of associates	19	**(3,219)**	(23,690)
Fees, commission and foreign exchange income, net	7	**237,524**	154,538
Income from investment properties		**38,900**	244,035
Income from development properties		**99,845**	19,370
Other income		**(851)**	5,045
		3,498,225	3,044,061
OPERATING EXPENSES			
Employees' costs	8	**(634,029)**	(536,755)
General and administrative expenses	9	**(306,104)**	(312,624)
Depreciation	20 & 24	**(53,279)**	(38,430)
Provision for impairment, net	10	**(1,448,819)**	(459,680)
		(2,442,231)	(1,347,489)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**1,055,994**	1,696,572
Distribution to depositors and sukuk holders	11	**(977,968)**	(845,520)
PROFIT FOR THE YEAR		**78,026**	851,052
Attributable to:			
Equity holders of the Bank		**77,778**	851,262
Non-controlling interest	35	**248**	(210)
		78,026	851,052
Basic and diluted earnings per share attributable to ordinary shares (AED)	12	**(0.004)**	0.432

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Notes	*2009* *AED '000*	2008 AED '000
Profit for the year		**78,026**	851,052
Other comprehensive income (expense)			
Realised gains on sale of available-for-sale investments, net	33	**(9,324)**	(6,433)
Net movement in fair values of available-for-sale investments		**(66,867)**	(376,920)
Impairment loss on available-for-sale investments		-	125,065
Directors' remuneration paid		**(3,000)**	-
Net movement in foreign currency translation reserve	33	**1,724**	18,216
Fair value loss on cash flow hedge, net	33	**(6,076)**	-
Other comprehensive expense for the year		**(83,543)**	(240,072)
Total comprehensive (expense) income for the year		**(5,517)**	610,980
Attributable to:			
Equity holders of the Bank		**(5,768)**	611,409
Non-controlling interest		**251**	(429)
		(5,517)	610,980

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2009

	Notes	2009 AED '000	2008 AED '000
ASSETS			
Cash and balances with Central Banks	13	**3,330,948**	2,823,951
Balances and Wakala deposits with banks and other financial institutions	14	**2,467,919**	1,343,237
Murabaha and Mudaraba with financial institutions	15	**12,189,945**	7,553,729
Murabaha and other Islamic financing	16	**20,910,890**	18,338,318
Ijara financing	17	**19,563,010**	15,840,298
Investments	18	**1,010,024**	1,209,034
Investment in associates	19	**738,132**	797,086
Investment properties	20	**206,761**	220,215
Development properties	21	**859,132**	688,623
Properties held for sale	22	**71,938**	-
Other assets	23	**2,356,480**	2,074,016
Property and equipment	24	**378,825**	321,549
TOTAL ASSETS		**64,084,004**	51,210,056
LIABILITIES			
Due to financial institutions	25	**1,278,518**	3,575,768
Depositors' accounts	26	**48,219,662**	37,486,246
Other liabilities	27	**2,295,880**	1,573,330
Tier 2 Wakala capital	28	**2,207,408**	-
Sukuk payable	29	**2,938,000**	2,938,000
Total liabilities		**56,939,468**	45,573,344
EQUITY			
Share capital	30	**1,970,588**	1,970,588
Legal reserve	31	**1,754,475**	1,753,990
General reserve	31	**321,297**	309,704
Retained earnings		**724,632**	1,117,078
Proposed dividends	32	**394,118**	425,631
Proposed dividends to charity		**1,028**	1,028
Other reserves	33	**(24,457)**	56,089
Equity attributable to the equity holders of the Bank		**5,141,681**	5,634,108
Tier 1 sukuk	34	**2,000,000**	-
Non – controlling interest	35	**2,855**	2,604
Total equity		**7,144,536**	5,636,712
TOTAL LIABILITIES AND EQUITY		**64,084,004**	51,210,056
CONTINGENT LIABILITIES AND COMMITMENTS	36	**14,449,339**	16,558,687

H.E. Jawaan Awaidha Al Khaili
Chairman

Tirad M. Mahmoud
Chief Executive Officer

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
At 31 December 2009

		Attributable to the equity holders of the Bank											
	Notes	*Share capital AED '000*	*Convertible Islamic sukuk AED '000*	*Legal reserve AED '000*	*General reserve AED '000*	*Retained earnings AED '000*	*Proposed dividends AED '000*	*Proposed dividends to charity AED '000*	*Other reserves AED '000*	*Total AED '000*	*Tier 1 sukuk AED '000*	*Non-controlling interest AED '000*	*Total equity AED '000*
Balance at 1 January 2008		1,500,000	2,000,000	224,578	224,578	871,719	300,000	1,028	295,942	5,417,845	-	3,033	5,420,878
Total comprehensive income (expense)		-	-	-	-	851,262	-	-	(239,853)	611,409	-	(429)	610,980
Islamic sukuk converted to shares		470,588	(470,588)	-	-	-	-	-	-	-	-	-	-
Share premium on conversion of sukuk transferred to legal reserve		-	(1,529,412)	1,529,412	-	-	-	-	-	-	-	-	-
Dividends paid	32	-	-	-	-	(94,118)	(300,000)	-	-	(394,118)	-	-	(394,118)
Dividends paid to charity		-	-	-	-	-	-	(1,028)	-	(1,028)	-	-	(1,028)
Transfer to general reserve	31.2	-	-	-	85,126	(85,126)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(1,028)	-	1,028	-	-	-	-	-
Proposed cash dividend to shareholders	32	-	-	-	-	(425,631)	425,631	-	-	-	-	-	-
Balance at 1 January 2009		1,970,588	-	1,753,990	309,704	1,117,078	425,631	1,028	56,089	5,634,108	-	2,604	5,636,712
Total comprehensive income (expense)		-	-	-	-	74,778	-	-	(80,546)	(5,768)	-	251	(5,517)
Tier 1 sukuk issued to Government of Abu Dhabi	34	-	-	-	-	-	-	-	-	-	2,000,000	-	2,000,000
Profit paid on Tier 1 sukuk	34	-	-	-	-	(60,000)	-	-	-	(60,000)	-	-	(60,000)
Dividends paid	32	-	-	-	-	-	(425,631)	-	-	(425,631)	-	-	(425,631)
Dividends paid to charity		-	-	-	-	-	-	(1,028)	-	(1,028)	-	-	(1,028)
Transfer to reserves	31	-	-	485	11,593	(12,078)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	-	(1,028)	-	1,028	-	-	-	-	-
Proposed bonus share dividend to shareholders	32	-	-	-	-	(394,118)	394,118	-	-	-	-	-	-
Balance at 31 December 2009		**1,970,588**	**-**	**1,754,475**	**321,297**	**724,632**	**394,118**	**1,028**	**(24,457)**	**5,141,681**	**2,000,000**	**2,855**	**7,144,536**

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW
Year ended 31 December 2009

	Notes	2009 AED '000	2008 AED '000
OPERATING ACTIVITIES			
Profit for the year		**78,026**	851,052
Adjustments for:			
Depreciation on investment properties	20	**4,644**	4,748
Depreciation on property and equipment	24	**48,635**	33,682
Unrealised loss on trading investments		**-**	3,084
Share of results of associates	19	**3,219**	23,690
Gain on sale of investments		**(5,910)**	(7,104)
Loss (gain) on disposal of property and equipment		**48**	(22)
Provision for impairment, net	10	**1,448,819**	459,680
Gain on sale of investment properties		**(40,738)**	(136,647)
Gain on sale of development properties		**(143,474)**	(19,370)
Operating profit before changes in operating assets and liabilities		**1,393,269**	1,212,793
Murabaha and Mudaraba with financial institutions		**(4,185,575)**	1,831,199
Murabaha and other Islamic financing		**(3,533,873)**	(5,984,166)
Ijara financing		**(3,923,875)**	(4,103,361)
Additions to development properties	21	**(423,917)**	(108,476)
Proceeds from sale of development properties		**349,368**	147,923
Other assets		**(340,089)**	(1,122,683)
Due to financial institutions		**(274,438)**	(199,748)
Depositors' accounts		**12,940,824**	7,857,420
Other liabilities		**716,474**	140,945
Cash from (used in) operations		**2,718,168**	(328,154)
Directors' remuneration paid		**(3,000)**	-
Net cash from (used in) operating activities		**2,715,168**	(328,154)
INVESTING ACTIVITIES			
Purchase of investments		**(299,950)**	(1,277,078)
Proceeds from sale of investments		**371,050**	776,202
Proceeds from liquidation of associate		**140,280**	-
Investment in associates		**(82,821)**	(392,180)
Additions to investment properties	20	**(3,644)**	(95,798)
Proceeds from sale of investment properties		**53,192**	510,872
Additions to properties held for sale	22	**(9,227)**	-
Purchase of property and equipment	24	**(106,065)**	(61,869)
Proceeds from disposal of property and equipment		**106**	34,837
Net cash from (used in) investing activities		**62,921**	(505,014)
FINANCING ACTIVITIES			
Proceeds from issuance of Tier 1 sukuk to Government of Abu Dhabi	34	**2,000,000**	-
Profit paid on Tier 1 sukuk	34	**(60,000)**	-
Dividends paid	32	**(425,631)**	(394,118)
Dividends paid to charity		**(1,028)**	(1,028)
Net cash from (used in) financing activities		**1,513,341**	(395,146)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**4,291,430**	(1,228,314)
Cash and cash equivalents at 1 January		**6,714,955**	7,943,269
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39	**11,006,385**	6,714,955

The attached notes 1 to 44 form part of these consolidated financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Abu Dhabi Islamic Bank PJSC ("the Bank") was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

The Bank and its subsidiaries ("the Group") carry out full banking services, financing and investing activities through various islamic instruments such as Murabaha, Istisna'a, Mudaraba, Musharaka, Ijara, Wakalah, Sukuk etc. The activities of the Bank are conducted in accordance with Islamic Sharia'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

In addition to its main office in Abu Dhabi, the Bank operates through its 52 branches in the UAE. The consolidated financial statements combine the activities of the Bank's head office, its branches, subsidiaries and its associates.

The registered office of the Bank is at P O Box 313, Abu Dhabi, UAE.

The consolidated financial statements of the Group were authorised for issued by the Board of Directors on 14 February 2010.

2 DEFINITIONS

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

Murabaha
A sale contract, in which the Group sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price consists of the purchasing cost plus a mark-up profit.

Istisna'a
A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

Ijara
A lease contract whereby the Group (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset either exists currently or to be constructed in future (Forward Lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

Qard Hasan
A non-profit bearing loan enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

Musharaka
A contract between the Group and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either on ongoing basis or for a limited time, during which the Group enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (Diminishing Musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

2 DEFINITIONS continued

Mudaraba
A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Wakalah
A contract between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

Sukuk
Certificates which are equal in value and represent common shares in the ownership of a specific physical asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

3 BASIS OF PREPARATION

3.1.a Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), generals principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of UAE laws.

3.1.b Accounting convention
The consolidated financial statements have been prepared under the historical cost convention except for investment securities (other than held to maturity investments and certain unquoted investments), land and Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value.

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

3.1.c Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	*Country of incorporation*	*Percentage of holding* ***2009***	*2008*
Abu Dhabi Islamic Financial Services LLC	Equity brokerage services	United Arab Emirates	**95%**	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	**100%**	100%
ADIB Invest 1	Equity brokerage services	BVI	**100%**	100%
ADIB Sukuk Company Ltd	Issuance of Sukuk	Cayman Island	**100%**	100%
Kawader Services Company LLC	Manpower supply	United Arab Emirates	**100%**	100%

A subsidiary is an entity over which the Bank exercises control, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. These consolidated financial statements include the operations of the subsidiaries over which the Bank has control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

3 BASIS OF PREPARATION continued

3.1.c Basis of consolidation continued

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-Group balances, transactions, income and expenses and profits and losses resulting from intra-Group transactions are eliminated in full.

Non-controlling interests represent the portion of the profit or loss and net assets not held by the Bank and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Bank shareholders' equity.

3.2 CHANGES IN ACCOUNTING POLICIES

During the year, the Group has adopted the following new and amended IFRS interpretations as of or after 1 January 2009.

IAS 1 (Revised) Presentation of Financial Statements, effective, 1 January 2009
IFRS 7 Financial Instruments: Disclosures, effective 1 January 2009.

The principal effects of these changes are as follows:

IAS 1 'Presentation of Financial Statements' (Revised):
The revised standard requires changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) to be presented in the consolidated statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in a performance statement (consolidated statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the consolidated statement of changes in equity.

IFRS 7 Financial Instruments: Disclosures
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

The Group has also adopted the following accounting policy:

Shari'a compliant alternatives of derivative financial instruments
The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

For the purpose of hedge accounting, the Bank classifies hedges into cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

Cash flow hedges
The effective portion of changes in the fair value of Shari'a compliant alternatives of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognized immediately in the consolidated statement of income as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated statement of income in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a nonfinancial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a nonfinancial liability, or until the forecast transaction affects the consolidated statement of income. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated statement of income and classified as trading revenue/loss.

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards / amendments to standards which were issued up to 31 December 2009 and are not yet effective for the year ended 31 December 2009 have not been applied while preparing these consolidated financial statements:

- IFRS 2 - Share based payment: Effective date 1 January 2010
- IFRS 3 Revised - Business Combinations: Effective date 1 July 2009
- IFRS 5 Amended - Non-current Assets Held for Sale and Discontinued Operations: Effective date 1 July 2009
- IAS 27Amended - Consolidated and Separate Financial Statements: Effective date 1 July 2009
- IAS 39 Amended - Financial Instruments: Recognition and Measurement – Eligible Hedged Items: Effective date 1 July 2009
- IFRIC 9 - Reassessment of embedded derivatives: Effective date 1 July 2009
- IFRIC 17 - Distributions of Non-cash Assets to Owners: Effective date 1 July 2009

The International Accounting Standards Board made certain amendments to existing standards as part of its annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Group’s 2010 consolidated financial statements. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgment, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows in order to estimate the level of impairment provision required for non-performing financing as well as for non-trading investments. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES *continued*

Impairment losses on financing assets
The Group reviews its financing assets on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on financing assets
In addition to specific provisions against individually impaired financing assets, the Bank also makes a collective impairment provision against portfolio of financing assets with common features which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Impairment of equity investments
The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment for which management takes into consideration, amongst other factors, share price volatility and the underlying asset base of the investee companies.

Held-to-maturity investments
The Group follows the guidance of IAS 39: *Financial Instruments: Recognition and Measurement* on classifying financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Operating lease commitments-Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Investment properties
The Group hired the services of independent real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of 31 December 2009, for disclosure purposes. The basis of estimate and method used by the independent valuer has been disclosed in the note 20.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could effect the reported fair value of the financial instruments.

4 SIGNIFICANT ACCOUNTING POLICIES

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

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

Istisna'a
Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time – apportioned basis.

Ijara
Ijara income is recognised on a time – apportioned basis over the lease term.

Musharaka
Income is accounted for on the basis of the reducing balance on a time-apportioned basis that reflects the effective yield on the asset.

Mudaraba
Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the Bank's statement of income on their declaration by the Mudarib.

Sukuk
Income is accounted for on a time-apportioned basis over the terms of the Sukuk.

Sale of investment properties
Revenue on sale of investment properties is recognised on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Sale of development properties
Revenue on sale of units or apartments is deferred until completion of construction works and delivery to the buyer takes place.

Fee and commission income
Fee and commission income is recognised when earned.

Operating lease income
Operating lease income arising on investment properties is accounted for on an straight-line basis over the lease terms on ongoing leases.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Gain on sale of investments
Gain or loss on trading and available-for-sale investments comprises all gains and losses from changes in the fair value of held for trading securities and gains or losses on disposal of available-for-sale investments. Gain or loss on disposal of trading investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs. Gain or loss on disposal of available-for-sale investments represents the difference between sale proceeds and their original cost less associated selling costs.

Dividends
Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of properties
Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the cost at which it is recorded in the books.

Financial instruments
(i) Classification
The Group classifies its financial instruments in the following categories: Financial assets and financial liabilities at fair value through profit or loss, Murabaha, Ijara, Mudaraba, and certain other Islamic financing, available for sale investments and held to maturity investments. Management determines the classification of financial instruments at the time of initial recognition.

Financial assets or financial liabilities at fair value through profit or loss
This category has two sub-categories: financial assets or financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial asset or financial liability is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term. The Group has designated financial assets and liabilities at fair value through profit or loss when either the assets and liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets or financial liabilities at amortised cost
Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Balances and Wakala deposits with banks and other financial institutions are stated at cost less amounts written off and provision for impairment, if any.

Murabaha and Mudaraba with financial institutions are stated at cost less provisions for impairment and deferred or expected profits.

Islamic financing consist of Murabaha receivables, Mudaraba, Istisna'a, Islamic covered cards (Murabaha based) and other Islamic financing.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Financial assets or financial liabilities at amortised cost continued
Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing are stated at cost less any provisions for impairment and deferred income.

The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using as independent agreement upon the maturity of the lease and this sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Held to maturity
Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity and the Group's management has the positive intention and the ability to hold to maturity.

Available for sale
Financial assets that are not classified under any other category of financial assets are classified as available for sale.

(ii) Recognition / De-recognition
The Group initially recognises financial assets held for trading, financial assets at fair value through profit or loss, financial assets held to maturity and financial assets available for sale on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financing to customers are recognised on the day they are originated. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instruments.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, assets held for trading and assets available for sale that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

(iii) Measurement
Financial assets and liabilities are measured initially at fair value plus, in case of a financial asset or financial liability or at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from a change in the fair value of assets at fair value through profit or loss account are directly in the consolidated statement of income.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

(iii) Measurement continued

Financial assets which are classified as available-for-sale are measured at fair value. Unrealised gains and losses on measurement to fair value of assets are reported as a separate component of equity until the assets is sold or otherwise disposed off, or the assets is determined to be impaired, at which the cumulative gains of losses previously reported in equity are included in the consolidated statement of income. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment allowance, if any.

All financial assets or liabilities at amortised cost, customer financing and held-to-maturity investments are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

(iv) Fair value measurement principles

For investments quoted in active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices for liabilities. The fair values of investments in funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined with reference to the price of recent market transactions involving such investments, current market value of instruments which are substantially the same, or is based on the expected discounted cash flows.

The estimated fair value of deposits with no stated maturity, which includes non-profit bearing deposits, is the amount payable on demand.

The fair value of unquoted investment is determined by reference to discounted cash flows, pricing models, net asset base of investee companies or broker over-the-counter prices.

(v) Offsetting of financial instruments

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

(vi) Impairment of financial assets

Customer financing

The recoverable amount of customer financing is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective profit rate. Short-term balances are not discounted. Financing is presented net of impairment allowances. Specific allowances are made against the carrying amount of financing that are identified as being impaired, based upon regular reviews of outstanding balances to reduce these financing to their recoverable amounts. Portfolio allowances are maintained to reduce the carrying amount of portfolios of similar financing to their estimated recoverable amounts at the statement of financial position date. Changes in the allowance account are recognized in the consolidated statement of income. When a financing is known to be irrecoverable, and all the necessary legal procedures have been completed, the final loss is determined and the financing is written off.

If in a subsequent period the amount of an impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated statement of income.

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
(vi) Impairment of financial assets continued

Held to maturity investments
Impairment losses on held to maturity investments carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original profit rate. Impairment losses are recognised in the consolidated statement of income and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

Available-for-sale investments
Impairment losses on available-for-sale investments are recognised by transferring the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in consolidated statement of income out of equity to the consolidated statement of income. When a subsequent event causes the amount of impairment loss on available-for-sale to decrease, the impairment loss is reversed through consolidated statement of income. Impairment losses recognised in consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

Impairment of non-financial assets
The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of income. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Investment in associates
The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each statement of financial position date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment properties
Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is 20 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the assets is recognised in the consolidated statement of income in the period of derecognition.

Transfers are made to investment properties when, and only when, there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is change in use evidenced by the commencement of owner-occupation or commencement of development or construction. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Development properties
Properties acquired, constructed or in the course of construction for sale are classified as development properties. Unsold properties are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at cost. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed. At that stage, cost, attributable profit and progress billings are eliminated from development properties.

Capital and development work in progress are recorded at cost (assets under construction) and represents costs based on contractual payments for the design, procurement, development and construction of infrastructure assets, roads, bridges and other relating assets. It is transferred to the appropriate asset category between property held for use or investment properties and development properties, and depreciated in accordance with the Group's policies where applicable, when the construction of the assets is completed and commissioned.

Properties held for sale
Properties acquired or constructed with the intention of sale are classified as properties held for sale when construction is completed. Properties held for sale are stated at cost or at net realisable value, which ever is lower. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalized as and when the activities that are necessary to get the assets ready for the intended use are in progress. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

Direct costs from the start of the project up to completion of the project are capitalized. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. The cost of land and costs incurred in the course of development relating to properties sold during the year are transferred to cost of revenues.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on a straight-line basis over the estimated useful lives of all property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

• Buildings	20 years
• Furniture and leasehold improvements	7 years
• Computer and office equipment	4 years
• Motor vehicles	4 years

The carrying values of properties and equipments are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated statement of income as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of income in the year the asset is derecognized.

Capital work-in-progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

When an asset is revalued, any increase in the carrying amount arising on revaluation is credited directly to equity under revaluation reserve, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

Provisions and contingent liabilities
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

Deposits
Customer deposits and due to banks and other financial institutions are carried at cost.

Employees' pension and end of service benefits
The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Zakat
Zakat is computed as per the Articles and Memorandum of Association of the Bank and is approved by the Fatwa and Shari'a Supervisory Board. As per the Articles and Memorandum of Association of the Bank, it is the responsibility of shareholders to pay zakat due on their investment.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 and the Group's Fatwa and Shari'a Supervisory Board Resolutions.

In accordance with the Memorandum of Association, the Group just communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat.

Profit distribution
Profits or losses of Mudaraba based accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Detailed allocation of revenues and costs are made based on the Fatwa and Shari'a Supervisory Board's resolutions. A part of the Mudaraba based investment accounts' deserved profit can be reserved as "Profit Equalization Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

Cash and cash equivalents
For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with Central Banks, due from banks and international Murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Trade and settlement date accounting
All "regular way" purchase and sales of financial assets are recognized on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Prohibited income
According to the Fatwa and Shari'a Supervisory Board "FSCC", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account to be disposed in charity by the Group under the supervision of the FSCC (as purification amount).

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

Foreign currencies
The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies continued

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the statement of financial position date and their statement of income is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated statement of income in 'Net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in 'Credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated statement of income in 'Net fees and commission income' when the guarantee is discharged, cancelled or expires.

Segment reporting

The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

5 INCOME FROM MURABAHA, MUDARABA, IJARA AND OTHER ISLAMIC FINANCING, NET

	2009	*2008*
	AED '000	*AED '000*
Murabaha	**1,466,837**	1,285,340
Mudaraba	**167,742**	50,880
Ijara	**1,078,333**	807,394
Istisna'a	**29,132**	34,176
	2,742,044	2,177,790

6 INVESTMENT INCOME

	2009	*2008*
	AED '000	*AED '000*
Dividend income	**7,366**	34,436
Income from Islamic sukuk	**22,703**	20,536
Income from other investing assets	**3,519**	11,800
Realised gain on sale of available-of-sale investments	**11,288**	6,433
Realised (loss) gain on sale of trading investments	**(5,378)**	671
Unrealised loss on trading investments	**-**	(3,084)
	39,498	70,792

7 FEES, COMMISSION AND FOREIGN EXCHANGE INCOME, NET

	2009 *AED '000*	*2008* *AED '000*
Trade related fees and commission	**50,377**	34,470
Fees and commission income on cards, net	**49,090**	24,483
Projects and property management fees	**29,428**	28,185
Accounts services fees	**35,777**	15,004
Brokerage fees and commission	**22,015**	21,006
Foreign exchange income	**38,950**	19,468
Other fees and commissions, net	**11,887**	11,922
	237,524	154,538

8 EMPLOYEES' COSTS

	2009 *AED '000*	*2008* *AED '000*
Salaries and wages	**581,518**	488,991
End of service benefits	**32,812**	30,454
Other staff expenses	**19,699**	17,310
	634,029	536,755

9 GENERAL AND ADMINISTRATIVE EXPENSES

	2009 *AED '000*	*2008* *AED '000*
Legal and professional expenses	**59,283**	114,354
Premises expenses	**92,048**	75,573
Marketing and advertising expenses	**73,443**	50,041
Communication expenses	**21,313**	17,301
Technology related expenses	**14,588**	10,883
Other operating expenses	**45,429**	44,472
	306,104	312,624

10 PROVISION FOR IMPAIRMENT, NET

	Notes	*2009* *AED '000*	*2008* *AED '000*
Murabaha and mudaraba with financial institutions	15	**186,298**	-
Murabaha and other Islamic financing	16	**961,301**	77,428
Ijara financing	17	**201,163**	158,765
Investments, net	18	**57,629**	112,825
Other assets	23	**42,428**	110,662
		1,448,819	459,680

11 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2009	*2008*
	AED '000	*AED '000*
Depositors and sukuk holders share of profit for the year	**977,968**	845,520
Less: pertaining to depositors' profit equalisation reserve (note 26)	**(49,594)**	-
	928,374	845,520
Less: paid during the year	**(760,527)**	(664,795)
Depositors and sukuk holders share of profit payable (note 27)	**167,847**	180,725

Share of profits distributable to customers and financial institutions are as follows:

	2009	*2008*
Saving accounts	**81,669**	26,405
Investment accounts by customers	**423,095**	460,039
Investment accounts by financial institutions	**427,479**	249,875
Sukuk holders	**45,725**	109,201
	977,968	845,520

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of any financial instruments with dilutive effects.

The following reflects the income and shares data used in the earnings per share computations:

	2009	*2008*
Profit for the year attributable to equity holders (AED '000)	**77,778**	851,262
Less: profit attributable to Tier 1 sukuk	**(85,000)**	-
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)	**(7,222)**	851,262
Weighted average number of ordinary shares in issue (000's)	**1,970,588**	1,970,588
Basic and diluted earnings per share (AED)	**(0.004)**	0.432

In 2009 and 2008, the Bank did not issue any instruments which would have a dilutive impact on earnings per share when converted or exercised.

13 CASH AND BALANCES WITH CENTRAL BANKS

	2009	*2008*
	AED '000	*AED '000*
Cash on hand	**400,315**	298,246
Balances with Central Banks:		
- Current accounts	**41,243**	2,865
- Reserve requirements	**2,889,390**	2,522,840
	3,330,948	2,823,951

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

The distribution of the cash and balances with central banks by geographic region is as follows:

	2009	*2008*
	AED '000	*AED '000*
UAE	**3,305,240**	2,823,951
Middle East	**25,708**	-
	3,330,948	2,823,951

14 BALANCES AND WAKALA DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2009	*2008*
	AED '000	*AED '000*
Current accounts	**78,410**	501,911
Wakala deposits	**2,389,509**	841,326
	2,467,919	1,343,237

In accordance with Shari'a principles deposits are invested only with Islamic financial institutions. The Bank does not earn profits on current accounts with banks and financial institutions.

The distribution of the balances and wakala deposits with banks and other financial institutions by geographic region is as follows:

	2009	*2008*
	AED '000	*AED '000*
UAE	**2,281,180**	1,173,535
Middle East	**4,483**	75,421
Europe	**62,728**	29,857
Others	**119,528**	64,424
	2,467,919	1,343,237

15 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2009 ***AED '000***	*2008* *AED '000*
Murabaha	**11,957,576**	6,910,843
Mudaraba	**418,667**	642,886
	12,376,243	7,553,729
Less: provision for impairment (note 10)	**(186,298)**	-
	12,189,945	7,553,729

The distribution of the gross murabaha and mudaraba with financial institutions by geographic region is as follows:

	2009 ***AED '000***	*2008* *AED '000*
UAE	**11,565,133**	4,841,274
Middle East	**324,292**	2,266,310
Europe	**228,939**	44,070
Others	**257,879**	402,075
	12,376,243	7,553,729

16 MURABAHA AND OTHER ISLAMIC FINANCING

	2009 ***AED '000***	*2008* *AED '000*
Murabaha	**22,257,720**	17,395,976
Mudaraba	**2,692,246**	3,170,509
Islamic covered cards	**3,226,955**	1,797,443
Istisna'a	**277,656**	328,667
Other financing receivables	**96,521**	136,845
Total murabaha and other islamic financing	**28,551,098**	22,829,440
Less: deferred income	**(6,270,053)**	(4,081,500)
	22,281,045	18,747,940
Less: provision for impairment	**(1,370,155)**	(409,622)
	20,910,890	18,338,318

16 MURABAHA AND OTHER ISLAMIC FINANCING continued

The movement in the provision for impairment during the year was as follows:

	2009			2008		
	Individual impairment AED 000	***Collective impairment AED 000***	***Total AED 000***	*Individual impairment AED 000*	*Collective impairment AED 000*	*Total AED 000*
At 1 January	**337,351**	**72,271**	**409,622**	113,821	219,145	332,966
Charge for the year (note 10)	**751,878**	**209,423**	**961,301**	224,302	(146,874)	77,428
Written off during the year	**(768)**	**-**	**(768)**	(772)	-	(772)
At 31 December	**1,088,461**	**281,694**	**1,370,155**	337,351	72,271	409,622

The distribution of the gross murabaha and other islamic financing by geographic region and industry sector is as follows:

	2009 AED '000	*2008 AED '000*
Geographic region:		
UAE	**20,972,629**	17,917,283
Middle East	**819,356**	497,797
Europe	**421,544**	240,853
Others	**67,516**	92,007
	22,281,045	18,747,940
Industry sector:		
Government	**352,373**	490,525
Public sector	**95,860**	144,267
Financial institutions	**853,721**	675,915
Trading and manufacturing	**617,329**	955,056
Construction and real estate	**2,103,811**	1,828,136
Energy	**313,417**	319,432
Personal	**15,373,746**	12,550,660
Others	**2,570,788**	1,783,949
	22,281,045	18,747,940
Gross amount of murabaha and other islamic financing individually determined to be impaired, before deducting any individually assessed impairment allowance (note 42.2.5)	**1,637,063**	684,772

17 IJARA FINANCING

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentations include a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	2009 **AED '000**	*2008* *AED '000*
The future lease receivable payments in the aggregate are as follows:		
Due within one year	**868,608**	1,182,879
Due in the second to fifth year	**5,558,248**	6,555,904
Due after five years	**13,533,841**	8,301,049
Total ijara financing	**19,960,697**	16,039,832
Less: deferred income	**(17,044)**	(19,880)
	19,943,653	16,019,952
Less: provision for impairment	**(380,643)**	(179,654)
Net value of minimum lease payments receivable	**19,563,010**	15,840,298

The movement in the provision for impairment during the year was as follows:

	2009			*2008*		
	Individual impairment AED 000	**Collective impairment AED 000**	**Total AED 000**	*Individual impairment AED 000*	*Collective impairment AED 000*	*Total AED 000*
At 1 January	**117,278**	**62,376**	**179,654**	20,889	-	20,889
Charge for the year (note 10)	**27,633**	**173,530**	**201,163**	96,389	62,376	158,765
Written off during the year	**(174)**	**-**	**(174)**	-	-	-
At 31 December	**144,737**	**235,906**	**380,643**	117,278	62,376	179,654

The distribution of the gross ijara financing by geographic region and industry sector is as follows:

	2009 **AED '000**	*2008* *AED '000*
Geographic region:		
UAE	**18,957,534**	15,031,420
Middle East	**26,112**	31,313
Others	**960,007**	957,219
	19,943,653	16,019,952
Industry sector:		
Government	**334,843**	274,636
Public Sector	**997,843**	881,400
Financial institutions	**28,792**	55,698
Trading and manufacturing	**552,176**	721,522
Construction and real estate	**2,731,495**	1,807,951
Energy	**175,141**	1,005,615
Personal	**10,359,955**	7,708,470
Others	**4,763,408**	3,564,660
	19,943,653	16,019,952
Gross amount of ijara financing individually determined to be impaired, before deducting any individually assessed impaired allowance (note 42.2.5)	**889,962**	528,402

18 INVESTMENTS

	2009 *AED '000*	*2008* *AED '000*
Trading Investments		
Equities – Quoted	-	13,370
Non-trading Investments		
Available-for-sale at fair value		
Quoted Investments		
Equities	**5,158**	213,062
Sukuk	**347,678**	347,216
	352,836	560,278
Less: provision for impaired investments	**(53,356)**	(125,065)
	299,480	435,213
Unquoted investments		
Funds	**214,859**	207,872
Private equities	**311,119**	377,468
Musharaka	**53,900**	57,700
Less: provision for impaired investments	**(4,414)**	(4,414)
	575,464	638,626
Total non-trading investments	**874,944**	1,073,839
Held to maturity investments		
Sukuk	**135,080**	-
Forfeiting deals	-	121,825
	135,080	121,825
	1,010,024	1,209,034

Investments in private equity funds represent investments made in funds and limited partnerships to fund primary investment commitments in target companies with the objective of generating returns outperforming the public equity markets.

All unquoted available for sale equities are recorded at their fair values except for investments amounting to AED 98,677 thousand (2008: AED 172,045 thousand) which are recorded at cost since their fair values cannot be reliably estimated. There is no active market for these investments and the Group intends to hold them for the long term.

The movement in the provision for impairment during the year was as follows:

	2009 *AED '000*	*2008* *AED '000*
At 1 January	**129,479**	16,654
Charge for the year, net (note 10)	**57,629**	112,825
Reversal of provision	**(129,338)**	-
At 31 December	**57,770**	129,479

18 INVESTMENTS continued

The distribution of the gross investments by geographic region is as follows:

	2009 AED '000	2008 AED '000
UAE	**816,101**	849,613
Middle East	**224,417**	313,986
Europe	**-**	21,258
Others	**27,276**	153,656
	1,067,794	1,338,513

19 INVESTMENT IN ASSOCIATES

	2009 AED '000	2008 AED '000
Share in capital in financing	**770,633**	828,092
Share of results	**(19,658)**	(16,439)
Foreign currency translation (note 33)	**19,940**	18,216
	770,915	829,869
Less: provision for impairment	**(32,783)**	(32,783)
	738,132	797,086

Details of the Bank's investment in associates at 31 December 2009 were as follows:

Name of associate	*Place of incorporation*	*Proportion of ownership interest and voting power* 2009 %	2008 %	*Principal activity*
National Bank for Development	Egypt	**49**	49	Banking (under conversion to Islamic bank)
Abu Dhabi National Takaful PJSC	UAE	**40**	40	Islamic insurance
Bosnia Bank Leasing and Real Estate Company	Bosnia	**32**	32	Islamic leasing and real estate
Bosnia Bank International	Bosnia	**27**	27	Islamic banking
Paradigm Investment Banking Company Limited *(Now liquidated)*	UAE	**-**	80	Investment banking

Summarised financial information of the investment in associates is set out below:

	2009 AED '000	2008 AED '000
Share of associates' statement of financial position		
Assets	**3,030,807**	2,483,386
Liabilities	**(3,562,482)**	(3,045,159)
Net assets	**(531,675)**	(561,773)
Share of associates' revenue and losses:		
Revenue for the year	**29,327**	36,145
Loss for the year	**(3,219)**	(9,648)

19 INVESTMENT IN ASSOCIATES continued

The distribution of the gross investment in associates by geographic region is as follows:

	2009 *AED '000*	*2008* *AED '000*
UAE	**106,091**	254,720
Europe	**67,901**	60,700
Africa	**596,923**	514,449
	770,915	829,869

20 INVESTMENT PROPERTIES

The movement in investment properties balance during the year was as follows:

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2009:			
Cost:			
Balance at 1 January	36,815	188,148	224,963
Additions during the year	207	3,437	3,644
Disposals during the year	-	(13,109)	(13,109)
Balance at 31 December	**37,022**	**178,476**	**215,498**
Accumulated depreciation:			
Balance at 1 January	-	4,748	4,748
Charge for the year	-	4,644	4,644
Disposals	-	(655)	(655)
Balance at 31 December	**-**	**8,737**	**8,737**
Net Book value:			
31 December 2009	**37,022**	**169,739**	**206,761**
2008:			
Cost:			
Balance at 1 January	766,032	144,844	910,876
Additions during the year	5,392	90,406	95,798
Transfer (to) from development properties	(580,146)	172,660	(407,486)
Disposals during the year	(154,463)	(219,762)	(374,225)
Balance at 31 December	36,815	188,148	224,963
Accumulated depreciation:			
Balance at 1 January	-	-	-
Charge for the year	-	4,748	4,748
Balance at 31 December	-	4,748	4,748
Net Book value:			
31 December 2008	36,815	183,400	220,215

20 INVESTMENT PROPERTIES continued

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 5,432 thousand (2008: AED 6,949 thousand).

The fair values of investment properties at 31 December 2009 amounted to AED 184,845 thousand (2008: AED 335,312 thousand) as per a valuation conducted by an independent valuer. The fair value has been arrived at by using the "Market Value" defined under the valuation standards as "the estimated amount for which a property would exchange on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgably, prudently and without compulsion".

The distribution of the investment properties by geographic region is as follows:

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2009:			
UAE	**28,453**	**169,739**	**198,192**
Middle East	**8,569**	**-**	**8,569**
	37,022	**169,739**	**206,761**
2008:			
UAE	28,453	183,400	211,853
Middle East	8,362	-	8,362
	36,815	183,400	220,215

21 DEVELOPMENT PROPERTIES

The movement in development properties balance during the year was as follows:

	2009 ***AED '000***	*2008* *AED '000*
Balance at 1 January	**688,623**	301,214
Additions during the year	**423,917**	108,476
Transfers from investment properties	**-**	407,486
Transfers to properties held for sale	**(47,514)**	-
Disposals during the year	**(205,894)**	(128,553)
Balance at 31 December	**859,132**	688,623

Development properties balance include land with a value of AED 821,382 thousand (2008: AED 670,758 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

22 PROPERTIES HELD FOR SALE

The movement in properties held for sale balance during the year was as follows:

	2009	*2008*
	AED '000	*AED '000*
Balance at 1 January	**-**	-
Additions during the year	**9,227**	-
Transfers from other assets	**15,197**	-
Transfer from development properties	**47,514**	-
Balance at 31 December	**71,938**	-

All properties are located in the UAE.

23 OTHER ASSETS

	2009	*2008*
	AED '000	*AED '000*
Advances against purchase of investment and development properties	**1,288,969**	959,249
Trade receivables	**654,004**	628,245
Cheques for collection	**4,410**	128,904
Prepaid expenses	**90,531**	65,154
Income receivable	**8,418**	9,365
Advance to contractors	**19,607**	16,871
Advance for investment	**290,017**	290,017
Others	**153,463**	86,973
	2,509,419	2,184,778
Less: provision for impairment	**(152,939)**	(110,762)
	2,356,480	2,074,016

The movement in the provision for impairment during the year was as follows:

	2009	*2008*
	AED '000	*AED '000*
At 1 January	**110,762**	100
Charge for the year, net (note 10)	**45,178**	110,662
Reversal of provision (note 10)	**(2,750)**	-
Written off during the year	**(251)**	-
At 31 December	**152,939**	110,762

24 PROPERTY AND EQUIPMENT

	Land (note 33) AED '000	*Buildings AED '000*	*Furniture and fixtures AED '000*	*Computer and office equipment AED '000*	*Motor vehicles AED '000*	*Capital work-in progress AED '000*	*Total AED '000*
2009							
Cost:							
At 1 January 2009	129,315	14,838	83,437	149,742	5,235	86,216	468,783
Additions	-	-	12,632	29,456	4,198	59,779	106,065
Transfers	-	-	47,865	11,359	-	(59,224)	-
Disposals	-	-	(2)	(87)	(293)	-	(382)
At 31 December 2009	**129,315**	**14,838**	**143,932**	**190,470**	**9,140**	**86,771**	**574,466**
Depreciation:							
At 1 January 2009	-	1,462	44,930	97,865	2,977	-	147,234
Charge for the year	-	744	16,818	29,421	1,652	-	48,635
Disposals	-	-	-	-	(228)	-	(228)
At 31 December 2009	**-**	**2,206**	**61,748**	**127,286**	**4,401**	**-**	**195,641**
Net book value							
At 31 December 2009	**129,315**	**12,632**	**82,184**	**63,184**	**4,739**	**86,771**	**378,825**
2008							
Cost:							
At 1 January 2008	129,315	6,402	105,417	121,601	4,966	75,664	443,365
Additions	-	8,436	6,383	20,946	1,008	25,096	61,869
Transfers	-	-	5,300	9,244	-	(14,544)	-
Disposals	-	-	(33,663)	(2,049)	(739)	-	(36,451)
At 31 December 2008	129,315	14,838	83,437	149,742	5,235	86,216	468,783
Depreciation:							
At 1 January 2008	-	1,035	37,581	74,450	2,122	-	115,188
Charge for the year	-	427	8,475	23,728	1,052	-	33,682
Disposals	-	-	(1,126)	(313)	(197)	-	(1,636)
At 31 December 2008	-	1,462	44,930	97,865	2,977	-	147,234
Net book value							
At 31 December 2008	129,315	13,376	38,507	51,877	2,258	86,216	321,549

25 DUE TO FINANCIAL INSTITUTIONS

	2009 *AED '000*	*2008* *AED '000*
Current accounts	**251,426**	352,916
Investment deposits	**792,296**	2,806,022
Murabaha payables	**234,796**	416,830
	1,278,518	3,575,768

Murabaha payables represent the amounts due to other financial institutions by a subsidiary of the Bank.

The distribution of the due to financial institutions by geographic region is as follows:

	2009 *AED '000*	*2008* *AED '000*
UAE	**305,524**	1,719,820
Middle East	**168,659**	816,220
Europe	**241,332**	254,192
Others	**563,003**	785,536
	1,278,518	3,575,768

26 DEPOSITORS' ACCOUNTS

	2009 *AED '000*	*2008* *AED '000*
Type:		
Current accounts	**11,422,664**	9,108,168
Saving accounts	**6,653,208**	4,465,638
Investment accounts	**30,094,196**	23,912,440
Profit equalisation reserve	**49,594**	-
	48,219,662	37,486,246

The movement in the profit equalisation reserve during the year was as follows:

	2009 *AED '000*	*2008* *AED '000*
At 1 January	**-**	-
Share of profit for the year (note 11)	**49,594**	-
Transfer from depositors' share of profit	**-**	-
At 31 December	**49,594**	-

26 DEPOSITORS' ACCOUNTS continued

The distribution of the gross depositors' accounts by industry sector, geographic region and currencies is as follows:

	2009	*2008*
	AED '000	*AED '000*
Industry sector:		
Government	**19,768,989**	11,371,277
Public sector	**500,648**	261,197
Financial institutions	**724,544**	568,347
Trading and manufacturing	**2,096,371**	1,573,731
Construction and real estate	**2,368,653**	2,214,303
Energy	**541,328**	549,934
Personal	**19,597,131**	19,005,759
Others	**2,621,998**	1,941,698
	48,219,662	37,486,246
Geographic region:		
UAE	**47,937,258**	37,245,336
Middle East	**11,463**	62,496
Europe	**1,594**	157,756
Others	**269,347**	20,658
	48,219,662	37,486,246
Currencies:		
UAE Dirham	**38,304,027**	27,891,174
US Dollar	**9,651,048**	9,172,736
Euro	**172,969**	259,211
Sterling Pound	**90,304**	161,074
Others	**1,314**	2,051
	48,219,662	37,486,246

The Bank generally invests all of its investment accounts including saving accounts, adjusted for UAE Central Bank reserve requirements and the Group's liquidity requirements.

With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract.

27 OTHER LIABILITIES

	2009 AED '000	2008 AED '000
Accounts payable	**720,184**	356,068
Payable for properties	**91,008**	159,559
Accrued profit distribution to depositors and sukuk holders (note 11)	**167,847**	180,725
Bankers' cheques	**128,329**	185,777
Provision for staff benefits and other expenses	**155,067**	141,469
Retentions payable	**378,366**	127,397
Advances from customers	**100,535**	94,527
Accrued legal and professional charges	**6,235**	46,505
Accrued expenses	**70,710**	56,943
Unclaimed dividends	**54,311**	31,291
Deferred income	**39,171**	92,522
Sadqat fund	**6,761**	17,422
Donation fund	**6,986**	9,246
Unrealised loss on Shari'a compliant alternatives of derivative financial instruments (note 37)	**6,076**	-
Others	**364,294**	73,879
	2,295,880	1,573,330

28 TIER 2 WAKALA CAPITAL

In December 2008, the UAE Federal government (the "Government") placed deposits with the Bank for a period of 3 - 5 years. Subsequent to the deposit placements, the Government offered, subject to certain terms and conditions and in accordance with the Central Bank's capital adequacy requirements, to convert the deposits, into capital qualifying as Tier 2 capital. Pursuant to the Extraordinary General Meeting held on 22 March 2009, the shareholders approved, subject to the terms of an instrument to be entered into with the Government, the conversion of these deposits into a Tier 2 capital. On 31 December 2009, a Shari'a compliant wakala agreement was signed by the Bank. In accordance with the terms of that agreement the deposits were converted into Tier 2 qualifying wakala capital.

The wakala capital is an unsecured subordinated obligation of the Bank which has been provided to the Bank for a term of 7 years. However, the Bank may, subject to certain conditions, return the wakala capital to the Government prior to the expiry of the 7 year term. The Tier 2 qualifying wakala capital bears an expected profit rate ranging, over the term that it has been provided, from 4% - 5.25%. The profit rate is payable quarterly in arrears. In limited circumstances and subject to certain conditions, the Government has the ability to convert all or part of the wakala capital into ordinary shares of the Bank at the prevailing market price

29 SUKUK PAYABLE

In 2006, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,938,000 thousand (USD 800 million) as the first issue under a USD 5 billion programme. The Sukuk are listed on the London Stock Exchange.

The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a Sukuk company, ADIB Sukuk Company Ltd - the Issuer, a wholly owned subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent. The Sukuk certificates will mature in 2011.

29 SUKUK PAYABLE continued

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the Sukuk holders on the quarterly distribution dates. Upon maturity of the Sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of USD 800 million.

The Sukuk bear a variable profit rate payable to the investors based on the market rate plus a margin.

30 SHARE CAPITAL

	2009	*2008*
	AED '000	*AED '000*
Authorised share capital:		
3,000,000 thousand (2008: 3,000,000 thousand) ordinary shares of AED 1 each (2008: AED 1 each)	**3,000,000**	3,000,000
Issued and fully paid share capital:		
1,970,588 thousand (2008: 1,970,588 thousand) ordinary shares of AED 1 each (2008: AED 1 each)	**1,970,588**	1,970,588

31 RESERVES

31.1 Legal reserve

As required by the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended) and the Articles of Association of the entities of the Bank, 10% of the profit for the year is transferred to the legal reserve. The Bank has resolved to discontinue such annual transfers as the reserve now totals more than 50% of the paid up share capital. The legal reserve is not available for distribution to the shareholders.

As per the Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year.

31.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the shareholders' General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

32 PROPOSED DIVIDENDS

	2009 AED '000	2008 AED '000
Bonus share dividend: AED 0.2 per share of AED 1 each (2008: Nil)	**394,118**	-
Cash dividend: Nil (2008: AED 0.216 per share of AED 1 each)	**-**	425,631
	394,118	425,631

Dividends relating to the year 2008 were declared and paid during the year. Proposed bonus share dividends relating to the year 2009 are subject to the approval of the shareholders at the Annual General Assembly.

33 OTHER RESERVES

	Cumulative changes in fair values AED '000	Revaluation reserve AED '000	Foreign currency translation reserve AED '000	Hedging reserves AED '000	Total AED '000
At 1 January 2008	166,703	129,239	-	-	295,942
Realised gains on available-for-sale investments, net (note 6)	(6,433)	-	-	-	(6,433)
Net movement in fair values of available-for-sale investments	(376,701)	-	-	-	(376,701)
Impairment loss on available-for-sale investments	125,065	-	-	-	125,065
Net movement in foreign currency translation reserve (note 19)	-	-	18,216	-	18,216
At 1 January 2009	**(91,366)**	**129,239**	**18,216**	**-**	**56,089**
Realised gains on available-for-sale investments, net	**(9,324)**	**-**	**-**	**-**	**(9,324)**
Net movement in fair values of available-for-sale investments	**(66,870)**	**-**	**-**	**-**	**(66,870)**
Net movement in foreign currency translation reserve	**-**	**-**	**1,724**	**-**	**1,724**
Fair value loss on cash flow hedge, net (note 37)	**-**	**-**	**-**	**(6,076)**	**(6,076)**
At 31 December 2009	**(167,560)**	**129,239**	**19,940**	**(6,076)**	**(24,457)**

34 TIER 1 SUKUK

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk") to the Department of Finance, Government of Abu Dhabi, with a principal amount of AED 2,000,000 thousand. Issuance of this Sukuk was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk is callable by the Bank subject to certain conditions. The Sukuk bear an expected mudaraba profit rate of 6% payable during the initial period of five years semi-annually in arrears and, after the initial period, bear an expected variable mudaraba profit rate payable of 6 months EIBOR plus an expected margin of 2.3%. Profit distributions will be reported in the consolidated statement of changes in equity. Sukuk holder will not have a right to claim the mudaraba profit if the Bank decided not to distribute dividends on its shares and the event is not considered an event of default.

35 NON-CONTROLLING INTEREST

Non-controlling interest represents the minority shareholder's proportionate share in the aggregate value of the net assets of a subsidiary and the results of subsidiary's operations.

36 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Bank's customers.

Commitments to extend Islamic credit facilities represent contractual commitments under Islamic financing contracts. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

The Bank has the following credit related contingencies, commitments and other capital commitments:

	2009	*2008*
	AED '000	*AED '000*
Contingent Liabilities		
Letters of credit	**699,577**	1,364,737
Letters of guarantee	**5,709,968**	2,816,358
Acceptances	**101,094**	132,174
	6,510,639	4,313,269
Commitments		
Undrawn facilities commitments	**6,034,200**	9,564,912
Investment securities	**144,200**	139,500
Buy back commitments	**-**	352,415
Future capital expenditure	**144,792**	144,983
Investment and development properties	**1,615,508**	2,043,608
	7,938,700	12,245,418
	14,449,339	16,558,687

37 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a Wa'ad (promise) structure between two parties to buy a specific sharia'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For shari'a complaint alternatives of swap, counter parties enters in two separate and independent murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to the receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

37 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS continued

The table below shows the fair values of Shari'a compliant alternatives of derivative financial instruments, together with the notional amounts analysed by term of maturity. The notional amount is based on the amount of the underlying transaction, reference rate or index and is the basis upon which changes in the value of transactions are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2009: Notional amount by term to maturity

	Negative fair value AED 000	*Notional amount AED 000*	*Less than 3 months AED 000*	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*
Shari'a compliant alternatives of swap *(note 27)*	6,076	734,500	-	-	734,500	-

38 ZAKAT

The Bank's Articles of Association do not authorise management to pay Zakat directly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 121,020 thousand (2008: AED 111,783 thousand) and accordingly, Zakat is estimated at AED 0.06142 (2008: AED 0.05673) per outstanding share.

39 CASH AND CASH EQUIVALENTS

	2009 ***AED '000***	*2008* *AED '000*
Cash and balances with Central Banks (note 13)	**3,330,948**	2,823,951
Balances and deposits with banks and other financial institutions (note 14)	**2,467,919**	1,343,237
Murabaha and Mudaraba with financial institutions, short term	**5,609,588**	4,972,649
Due to financial institutions, short term	**(402,070)**	(2,424,882)
	11,006,385	6,714,955

The following significant non-cash transactions have been excluded from statement of cash flow:

Transfer from other assets to properties held for sale (note 22)	**15,197**	-
Transfer from development properties to properties held for sale (note 22)	**47,514**	-
Transfer from investment properties to development properties, net (notes 20 and 21)	-	407,486

40 RELATED PARTIES TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholders, key management and their related concerns at commercial terms.. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. All financing to related parties are performing financing and free of any provision for impaired financing.

During the year, significant transactions with related parties included in the consolidated statement of income are as follows:

	Major shareholder AED '000	*Directors AED '000*	*Associates and others AED '000*	*Total AED '000*
31 December 2009				
Income from Murabaha, Mudaraba and Wakala with financial institutions, net	**-**	**-**	**2,378**	**2,378**
Income from Murabaha, Mudaraba, Ijara and other Islamic financing, net	**136,537**	**359**	**85,478**	**222,374**
Fees, commission and foreign exchange income, net	**-**	**-**	**46**	**46**
Operating expenses	**-**	**348**	**-**	**348**
Distribution to depositors and sukuk holders	**1,146**	**57**	**1,724**	**2,927**
31 December 2008				
Income from Murabaha, Mudaraba and Wakala with financial institution, net	-	-	5,981	5,981
Income from Murabaha, Mudaraba, Ijara and other Islamic financing, net	157,742	364	22,606	180,712
Fees, commission and foreign exchange income, net	3,333	-	-	3,333
Operating expenses	-	441	-	441
Distribution to depositors and sukuk holders	99	24	1,206	1,329

The related parties balances included in the consolidated statement of financial position are as follows:

	Major shareholder AED '000	*Directors AED '000*	*Associates and others AED '000*	*Total AED '000*
31 December 2009				
Due from:				
Balances and Wakala deposits with banks and other financial institutions	**-**	**-**	**113,756**	**113,756**
Murabaha, Mudaraba, Ijara and other Islamic financing	**2,338,206**	**7,380**	**1,346,524**	**3,692,110**
Other assets	**-**	**-**	**2,767**	**2,767**
	2,338,206	**7,380**	**1,463,047**	**3,808,633**
Due to:				
Due to financial institutions	-	**-**	**24,681**	**24,681**
Depositors' accounts	**555**	**3,976**	**107,295**	**111,826**
Other liabilities	**-**	**-**	**375**	**375**
	555	**3,976**	**132,351**	**136,882**
Undrawn facilities commitments	**-**	**615**	**175,067**	**175,682**

40 RELATED PARTIES TRANSACTIONS continued

	Major shareholder AED '000	*Directors AED '000*	*Associates and others AED '000*	*Total AED '000*
31 December 2008				
Due from:				
Balances and Wakala deposits with banks and other financial institutions	-	-	25,891	25,891
Murabaha, Mudaraba, Ijara and other Islamic financing	2,198,141	-	1,150,311	3,348,452
Other assets	-	-	16,403	16,403
	2,198,141	-	1,192,605	3,390,746
Due to:				
Due to financial institutions	-	-	28,704	28,704
Depositors' accounts	3,685	2,415	168,481	174,581
	3,685	2,415	197,185	203,285
Undrawn facilities commitments	-	5,465	390,984	396,449

Compensation of key management personnel
The compensations of key management personnel during the year was as follows:

	***2009* AED '000**	*2008 AED '000*
Salaries and other benefits	**21,617**	16,780
Employees' end of service benefits	**2,200**	2,769
	23,817	19,549

In accordance with the Ministry of Economy and Commerce interpretation of Article 119 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration is treated as an appropriation from equity.

Board of Directors' remuneration	**-**	3,000

Board of Directors remuneration for 2009 amounting to AED 3,000 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly.

41 BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Primary segment information
For management purposes, the Bank is organised into six major business segments:

Retail banking - Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, Ijara, Islamic covered card and funds transfer facilities and trade finance facilities.

41 BUSINESS AND GEOGRAPHICAL SEGMENTS continued

Primary segment information continued
Wholesale banking – Principally handling financing and other credit facilities and deposits and current accounts for corporate and institutional customers.

Private banking - Principally handling financing and other credit facilities, deposits and current accounts for high net worth individual customers.

Capital markets – Principally handling money market brokerage, trading and treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

Real estate – Subsidiary of the Bank handling the acquisition, selling, development and leasing including both land and buildings, management and resale of properties and all associated activities.

Other operations - Other operations comprises mainly of Head Office, subsidiaries and associates other than above categories including unallocated costs.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Business segments information for the year ended 31 December 2009 were as follows:

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues	**1,546,456**	**998,257**	**422,436**	**424,231**	**97,283**	**9,562**	**3,498,225**
Other operating expenses	**(432,718)**	**(47,368)**	**(14,482)**	**(32,347)**	**(86,855)**	**(379,642)**	**(993,412)**
Provision for impairment	**(304,188)**	**(909,954)**	**(97,343)**	**(96,470)**	**(40,864)**	**-**	**(1,448,819)**
Profit (loss) from operations	**809,550**	**40,935**	**310,611**	**295,414**	**(30,436)**	**(370,080)**	**1,055,994**
Profit distribution to depositors and sukuk holders	**(152,258)**	**(300,356)**	**(168,878)**	**(356,476)**	**-**	**-**	**(977,968)**
Profit (loss) for the year before non-controlling interest	**657,292**	**(259,421)**	**141,733**	**(61,062)**	**(30,436)**	**(370,080)**	**78,026**
Non-controlling interest	**-**	**-**	**-**	**(248)**	**-**	**-**	**(248)**
Profit (loss) for the year attributable to the equity holders of the Bank	**657,292**	**(259,421)**	**141,733**	**(61,310)**	**(30,436)**	**(370,080)**	**77,778**
Assets and liabilities							
Assets							
Segmental assets	**19,376,545**	**15,063,098**	**7,042,607**	**18,522,909**	**3,470,339**	**608,506**	**64,084,004**
Liabilities							
Segmental liabilities	**18,296,969**	**16,577,231**	**7,125,767**	**13,822,895**	**791,272**	**325,334**	**56,939,468**

41 BUSINESS AND GEOGRAPHICAL SEGMENTS continued

Business segments information for the year ended 31 December 2008 were as follows:

	Retail banking AED '000	*Wholesale banking AED '000*	*Private banking AED '000*	*Capital markets AED '000*	*Real estate AED '000*	*Other operations AED '000*	*Total AED '000*
Revenue and results							
Segment revenues	1,113,047	834,973	309,265	456,033	313,802	16,941	3,044,061
Other operating expenses	(338,247)	(30,260)	(9,636)	(32,313)	(121,073)	(356,280)	(887,809)
Provision for impairment	(68,187)	(168,006)	-	(146,675)	(76,812)	-	(459,680)
Profit (loss) from operations	706,613	636,707	299,629	277,045	115,917	(339,339)	1,696,572
Profit distribution to depositors and sukuk holders	(84,211)	(326,891)	(158,457)	(275,961)	-	-	(845,520)
Profit (loss) for the year before non-controlling interest	622,402	309,816	141,172	1,084	115,917	(339,339)	851,052
Non-controlling interest	-	-	-	210	-	-	210
Profit (loss) for the year attributable to the equity holders of the Bank	622,402	309,816	141,172	1,294	115,917	(339,339)	851,262
Assets and liabilities							
Assets							
Segmental assets	14,904,314	14,681,330	5,582,327	12,509,036	2,929,741	603,308	51,210,056
Liabilities							
Segmental liabilities	13,732,062	19,065,647	5,881,122	5,748,199	970,435	175,879	45,573,344

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

42 RISK MANAGEMENT

42.1 Introduction
Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his responsibilities. The Group is exposed to credit risk, liquidity risk, market risk and operating risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

42.1.1 Risk management structure
Key features of the Groups Risk Management structure are:

- The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework, as well as for approving the bank's overall risk appetite, and ensuring that business is conducted within this framework.
- The Board is the ultimate sanctioning authority, with the Executive Committee of the Board responsible for the review and approval of all major exposures and investments, within authorized limits and Board guidelines.

42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.1 Risk management structure continued

- The Board Audit Committee is responsible for setting the policy on all audit issues and maintains oversight of all bank audit issues.
- The Internal Audit division reports directly to the Board Audit Committee, and provides independent validation of the business units' compliance with risk policies and procedures, together with a regular assessment as to the effectiveness and adequacy of the Risk Management function across the bank.
- The Risk Management function is independent of the business divisions and is headed by the Group Chief Risk Officer.
- The Bank realizes the importance of creating and maintaining a strong Risk Culture throughout the organization. The management of all types of Risk is deeply embedded throughout the bank as a core competency of every staff member. In order to promote this, the bank places a high degree of importance on clearly written, well distributed and readily accessible policies, procedures and communication of risk issues across the bank.

Board of Directors
The overall risk management responsibility lies with the Board of Directors of the Bank. They provide the direction, strategy and oversee all the activities through various committees.

Audit Committee and Governance
The Audit and Governance Committee comprises one independent member and two members representing the Board of Directors of the Bank. The Committee has the overall responsibility to oversee management activities relating to accounting and financial reporting policies and internal controls, auditing practices, and legal and regulatory compliance; to discuss the integrity of the Bank's financial statements and the adequacy and reliability of disclosures to shareholders, to review the qualifications and independence of the internal and external auditors, the performance of internal and external auditors, and to review and recommend to the Board, the corporate governance guidelines applicable to the Group. Duties and responsibilities of the Audit Committee and Governance are governed by a formally approved Charter which is in line with best practice.

The Executive Committee of the Board
The Executive Committee of the Board (EC) is made up of members of the Board of Directors who are appointed by the Board. The EC, with respect to management of the credit portfolio of the bank, has the responsibility to:

- Review and approve large and unusual risks above the authority of management. Executive Committee members do not have individual credit limits, but the EC is authorized to approve credits up to the limits approved by the Board of Directors. The functioning of the Executive Committee is governed by the relevant resolutions of the Board of Directors.
- Approve the delegation of credit approval authority to management.

The Risk Management Group
This is an independent risk organization that works in close partnership with the rest of the business to support their activities, whilst safeguarding the risk profile of the bank. The primary objectives of the Risk Management Group, headed by the Group Chief Risk Officer are:

- Ensure adherence and compliance of individual and portfolio performance to agreed terms and policies
- Institute prudent control mechanisms (process and systems)
- Approve commercial and consumer financing transactions within its delegated authority
- Ensure compliance with local legal and regulatory guidelines
- Maintain the primary relationship with local regulators with respect to risk related issues

42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.1 Risk management structure continued

Basel II / Internal Capital Adequacy Assessment Process (ICAAP)

On 27 November 2009, the UAE Central Bank published Circular 27/2009 with regard to Basel II implementation and submission of annual report on ICAAP, the first of which is due on 1 March 2010. ADIB is committed to full compliance with the requirements of this circular, and has been engaged in a series of measures across the bank, and with the assistance of recognized external expertise, undertaking the various activities required to achieve this within the designated timeframes. These initiatives, apart from meeting the requirements of the regulator, will materially enhance and strengthen the Risk Management capability of the bank.

Asset Liability Committee:

The Asset & Liability Management (ALM) process is an act of planning, acquiring, and directing the flow of funds through an organisation. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the bank. The Bank has a well defined ALM policy duly describing the objective, role and function of the Asset & Liability Committee (ALCO). This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of statement of financial position related risks. The ALCO consists of the Bank's senior management including the Chief Executive Officer (CEO) and normally meets once a month.

Credit Committee:

All the business proposals of clients are approved through a committee empowered by the Executive Committee of the Bank through the CEO. The Bank has a Credit Committee which approves all the funded and non-funded transactions within limits as delegated by the Board.

The committee consists of senior management personnel including the CEO. The approval process and the authorities vested with the committee members are well defined in the ADIB Credit Policy & Procedures Manual. The policy manual enumerates the various requirements and procedures to be followed in bringing a relationship to the Bank and assessment of the risks involved.

Treasury

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

Internal Audit

Risk management processes throughout the Bank are reviewed periodically by the internal audit function that reviews both the adequacy of the procedures and the Bank’s compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee and Governance. The Head of Internal Audit has direct reporting lines to the Audit Committee and Governance in securing his independence and objectivity in all audit engagements undertaken within the Bank.

42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.2 Risk measurement and reporting systems
In order to effectively monitor and control risks, the Policy and Portfolio Management Unit and the Credit Administration units within the Risk organization is tasked, in close partnership with the relevant business units with the documentation and communication of credit and risk related policies, the maintenance and adherence of delegated credit approval authorities, and the monitoring and general adherence to risk related policies by the business units. Within the ambit of Portfolio Management, specific responsibilities include:

- Preparing portfolio reports across a diverse range of indicators such as portfolio concentrations by geography, industry type, product, risk rating etc which are used to analyse and monitor overall portfolio quality
- Monitoring the integrity and consistency of data, including risk ratings, migration, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses
- Setting and advising the values of input parameters to be used for the calculation of expected loss and economic capital requirements
- Consolidation and consolidation of portfolio management data and reports for use by Executive Management and the Board
- The establishment and management of early warning tools to identify emerging risk problems

On a monthly basis detailed reporting of industry, customer and geographic risks takes place and assessed against the risk profile and overall risk appetite of the bank. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis.

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

The Bank actively uses collateral to reduce its credit risks.

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

The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in Notes 16 and 17.

42 RISK MANAGEMENT continued

42.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank controls credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of all counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

All commercial credit risk exposures are risk rated using Moody's Risk Analyst risk rating system, recognized as an industry wide standard. Consumer exposures are rated using a pool concept as required by Basel II.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks to financing and these are mitigated by the same control processes and policies.

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

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	***Gross maximum exposure 2009 AED '000***	*Gross maximum exposure 2008 AED '000*
Balances and Wakala deposits with banks and other financial institutions	14	**2,467,919**	1,343,237
Murabaha and Mudaraba with financial institutions	15	**12,376,243**	7,553,729
Murabaha and other Islamic financing	16	**22,281,045**	18,747,940
Ijara financing	17	**19,943,653**	16,019,952
Investments		**536,658**	526,741
Other assets		**1,129,919**	2,124,554
		58,735,437	46,316,153
Contingent liabilities	36	**6,510,639**	4,313,269
Commitments	36	**7,649,708**	11,608,520
Total		**14,160,347**	15,921,789
Total credit risk exposure		**72,895,784**	62,237,942

42.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2009 was AED 4,716,444 thousand (2008: AED 4,680,037 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.2 Credit risk concentration continued

The distribution of the Group's financial assets by geographic region is as follows:

	Balances and Wakala depositsh with banks and other financial institutions AED 000	*Murabaha and mudaraba with financial institutions AED 000*	*Murabaha and other Islamic financing AED 000*	*Ijara financing AED 000*	*Investments AED 000*	*Other assets AED 000*	*Total AED 000*
31 December 2009							
UAE	**2,281,180**	**11,565,133**	**20,972,629**	**18,957,534**	**467,282**	**944,075**	**55,187,833**
Middle East	**4,483**	**324,292**	**819,356**	**26,112**	**69,376**	**2,219**	**1,245,838**
Europe	**62,728**	**228,939**	**421,544**	**-**	**-**	**-**	**713,211**
Others	**119,528**	**257,879**	**67,516**	**960,007**	**-**	**183,625**	**1,588,555**
Financial assets subject to credit risk	**2,467,919**	**12,376,243**	**22,281,045**	**19,943,653**	**536,658**	**1,129,919**	**58,735,437**
31 December 2008							
UAE	1,173,535	4,841,274	17,917,283	15,031,420	287,092	1,940,929	41,191,533
Middle East	75,421	2,266,310	497,797	31,313	117,824	-	2,988,665
Europe	29,857	44,070	240,853	-	121,825	-	436,605
Others	64,424	402,075	92,007	957,219	-	183,625	1,699,350
Financial assets subject to credit risk	1,343,237	7,553,729	18,747,940	16,019,952	526,741	2,124,554	46,316,153

The distribution of the Group's financial assets by industry sector is as follows:

	***2009* AED '000**	*2008 AED '000*
Industry sector:		
Government	**696,092**	781,828
Public sector	**1,093,703**	1,025,667
Financial institutions	**15,725,189**	9,750,404
Trading and manufacturing	**1,192,246**	1,676,578
Construction and real estate	**5,967,322**	3,948,013
Energy	**501,384**	1,325,047
Personal	**25,733,701**	20,259,130
Others	**7,825,800**	7,549,486
Financial assets subject to credit risk	**58,735,437**	46,316,153

42.2.3 Impairment assessment

The main consideration for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment losses and collective impairment provisions on financing assets.

Individually assessed impairment losses on financing assets

The Bank determines the allowances appropriate for each individually significant customer financing on an individual basis. Items considered when determining impairment loss amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.3 Impairment assessment continued

Collective impairment provisions on financing assets

Collective impairment provisions are assessed for losses on customer financing that are not individually significant (including Islamic covered cards, murabahat and unsecured retail financing assets) where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even thought there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

42.2.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities,
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities,
- For retail financing, charge over assets, mortgage of properties and assignment of salaries in favour of the Bank.

The Bank also obtains guarantees from parent companies for financing their subsidiaries, but their benefits are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses. Management estimates the fair value of collaterals and other credit enhancements held against individually impaired financings assets to reasonably approximate AED 902,597 thousands as at 31 December 2009.

The Bank also makes use of master netting agreements with counterparties.

42.2.5 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for financing related statement of financial position lines, based on the Bank's credit rating system.

	Not impaired			
	Low and fair risk	*Past due*	*Individually impaired*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*
31 December 2009				
Balances and Wakala deposits with banks and other financial institutions	**2,467,919**	**-**	**-**	**2,467,919**
Murabaha and Mudaraba with financial institutions	**12,006,089**	**124,865**	**245,289**	**12,376,243**
Murabaha, and other Islamic financing (note 16)	**19,931,864**	**712,118**	**1,637,063**	**22,281,045**
Ijara financing (note 17)	**18,006,498**	**1,047,193**	**889,962**	**19,943,653**
Investments	**431,992**	**-**	**104,666**	**536,658**
Other assets	**976,980**	**-**	**152,939**	**1.129.919**
Total	**53,821,342**	**1,884,176**	**3,029,919**	**58,735,437**

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets continued

	Not impaired			
	Low and fair risk AED 000	*Past due AED 000*	*Individually impaired AED 000*	*Total AED 000*
31 December 2008				
Balances and Wakala deposits with banks and other financial institutions	1,343,237	-	-	1,343,237
Murabaha and Mudaraba with financial institutions	7,553,729	-	-	7,553,729
Murabaha, and other Islamic financing (note 16)	18,014,893	48,275	684,772	18,747,940
Ijara financing (note 17)	15,262,660	228,890	528,402	16,019,952
Investments	526,741	-	-	526,741
Other assets	2,008,862	-	115,692	2,124,554
Total	44,710,122	277,165	1,328,866	46,316,153

An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired

	Less than 30 days AED 000	***31 - 60 days AED 000***	***61 - 90 days AED 000***	***More than 91 days AED 000***	***Total AED 000***
2009					
Murabaha and Mudaraba with financial institutions	**-**	**-**	**-**	**124,865**	**124,865**
Murabaha and other Islamic financing	**23,958**	**41,423**	**30,430**	**616,307**	**712,118**
Ijara financing	**23**	**3,184**	**18,120**	**1,025,866**	**1,047,193**
	23,981	**44,607**	**48,550**	**1,767,038**	**1,884,176**
2008					
Murabaha and other Islamic financing	15,853	3,152	700	28,570	48,275
Ijara financing	62,989	68,084	1,826	95,991	228,890
	78,842	71,236	2,526	124,561	277,165

More detailed information in respect of the allowance for impairment losses on murabaha & other islamic financing and ijara financing have been disclosed in notes 16 and 17 respectively.

Renegotiated murabaha, ijara and other islamic financings

The total carrying amount of financing whose terms have been renegotiated as of 31 December 2009 amounted to AED 947,431 thousand.

42.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of scenarios, given due consideration to stress factors relating to both the market in general and specifically to the Bank.

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

The high quality of the asset portfolio ensure its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

42.3.1 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidities ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

42.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2009 based on contractual maturities.

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
31 December 2009					
ASSETS					
Cash and balances with Central Banks	**3,330,948**	**-**	**-**	**-**	**3,330,948**
Balances and Wakala deposits with banks and other financial institutions	**2,267,891**	**200,028**	**-**	**-**	**2,467,919**
Murabaha and Mudaraba with financial institutions	**5,929,007**	**5,335,514**	**792,411**	**133,013**	**12,189,945**
Murabaha and other Islamic financing	**2,942,375**	**4,560,622**	**10,499,751**	**2,908,142**	**20,910,890**
Ijara financing	**871,915**	**2,023,880**	**11,272,787**	**5,394,428**	**19,563,010**
Investments	**925**	**583,103**	**425,996**	**-**	**1,010,024**
Other assets	**118,629**	**812,651**	**41,657**	**4,043**	**976,980**
Financial assets	**15,461,690**	**13,515,798**	**23,032,602**	**8,439,626**	**60,449,716**
Non-financial assets					**3,634,288**
Total assets					**64,084,004**
LIABILITIES					
Due to financial institutions	**872,533**	**397,443**	**8,542**	**-**	**1,278,518**
Depositors' accounts	**42,643,088**	**5,572,816**	**3,694**	**64**	**48,219,662**
Other liabilities	**1,404,797**	**647,626**	**243,457**	**-**	**2,295,880**
Tier 2 Wakala capital	**-**	**-**	**-**	**2,207,408**	**2,207,408**
Sukuk payable	**-**	**-**	**2,938,000**	**-**	**2,938,000**
Total liabilities	**44,920,418**	**6,617,885**	**3,193,693**	**2,207,472**	**56,939,468**

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

42.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
31 December 2008					
ASSETS					
Cash and balances with Central Banks	2,823,951	-	-	-	2,823,951
Balances and Wakala deposits with banks and other financial institutions	1,343,237	-	-	-	1,343,237
Murabaha and Mudaraba with financial institutions	4,777,515	2,541,174	235,040	-	7,553,729
Murabaha and other Islamic financing	2,947,687	4,350,341	8,706,212	2,334,078	18,338,318
Ijara financing	666,079	1,967,792	9,705,042	3,501,385	15,840,298
Investments	65,703	157,489	985,842	-	1,209,034
Other assets	260,989	602,582	183,625	2,417	1,049,613
Financial assets	12,885,161	9,619,378	19,815,761	5,837,880	48,158,180
Non-financial assets					3,051,876
Total assets					51,210,056
LIABILITIES					
Due to financial institutions	2,800,141	775,627	-	-	3,575,768
Depositors' accounts	29,171,209	4,981,527	3,333,510	-	37,486,246
Other liabilities	1,337,271	216,887	19,172	-	1,573,330
Sukuk payable	-	-	2,938,000	-	2,938,000
Total liabilities	33,308,621	5,974,041	6,290,682	-	45,573,344

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and profit payable to maturity.

	Less than 3 months AED 000	***3 months to 1 year AED 000***	***1 year to 5 years AED 000***	***Over 5 years AED 000***	***Total AED 000***
31 December 2009					
LIABILITIES					
Due to financial institutions	**872,714**	**397,838**	**8,542**	**-**	**1,279,094**
Depositors' accounts	**42,748,711**	**5,698,295**	**3,931**	**73**	**48,451,010**
Other liabilities	**1,327,852**	**647,626**	**243,457**	**-**	**2,218,935**
Tier 2 Wakala capital	**-**	**-**	**-**	**2,941,101**	**2,941,101**
Sukuk payable	**-**	**-**	**3,027,189**	**-**	**3,027,189**
Total liabilities	**44,949,277**	**6,743,759**	**3,283,119**	**2,941,174**	**57,917,329**
31 December 2008					
LIABILITIES					
Due to financial institutions	2,802,134	779,021	-	-	3,581,155
Depositors' accounts	29,311,476	5,097,378	3,421,812	-	37,830,666
Other liabilities	1,233,823	216,887	19,172	-	1,469,882
Sukuk payable	-	-	3,011,413	-	3,011,413
Total liabilities	33,347,433	6,093,286	6,452,397	-	45,893,116

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

42.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities continued
The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2009					
Contingent liabilities	**3,542,458**	**2,394,940**	**533,243**	**39,998**	**6,510,639**
Commitments	**90,253**	**406,862**	**1,407,385**	**-**	**1,904,500**
Total	**3,632,711**	**2,801,802**	**1,940,628**	**39,998**	**8,415,139**
2008					
Contingent liabilities	4,188,482	113,544	3,416	7,827	4,313,269
Commitments	182,249	497,862	2,000,395	-	2,680,506
Total	4,370,731	611,406	2,003,811	7,827	6,993,775

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

42.4 Market risk
Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limit to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management.
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The CEO and Group Chief Risk Officer ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

42.4.1 Profit rate risk
Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.1 Profit rate risk continued

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary instrument is the rate that, when used in present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating instrument or an instrument carried at fair value.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated statement of income. The sensitivity of the consolidated statement of income is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2009.

Currency	***Increase in basis points 2009***	***Sensitivity of profit on financial assets and liabilities AED '000***	*Increase in basis points 2008*	*Sensitivity of profit on financial assets and liabilities AED'000*
AED	**50**	**136,483**	50	76,267
USD	**50**	**8,397**	50	(9,146)
Euro	**50**	**(74)**	50	245
Other currencies	**50**	**978**	50	(288)

42.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Bank was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variable held constant on the consolidated statement of income (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated statement of income on available-for-sale equity instruments).

Currency	***Increase in currency rate in % 2009***	***Effect on net profit AED '000***	*Increase in currency rate in % 2008*	*Effect on net profit AED'000*
USD	**5**	**(35,982)**	5	(12,366)
Euro	**5**	**(7,159)**	5	(2,117)
Other currencies	**5**	**476**	5	(26,274)

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.2 Currency risk continued

The table below shows the Group's exposure to foreign currencies.

	AED *AED 000*	*USD* *AED 000*	*Euro* *AED 000*	*GBP* *AED 000*	*Others* *AED 000*	*Total* *AED 000*
31 December 2009						
Assets						
Cash and balances with Central Banks	**3,131,091**	**199,696**	**29**	**23**	**109**	**3,330,948**
Balances and Wakala deposits with banks and other financial institutions	**1,343,149**	**1,056,607**	**57,904**	**4,646**	**5,613**	**2,467,919**
Murabaha and mudarba with financial institutions	**5,433,837**	**6,171,985**	**116,483**	**334,627**	**133,013**	**12,189,945**
Murabaha and other Islamic financing	**19,628,860**	**1,282,030**	**-**	**-**	**-**	**20,910,890**
Ijara financing	**16,665,835**	**2,849,867**	**-**	**-**	**47,308**	**19,563,010**
Investments	**569,110**	**439,350**	**603**	**-**	**961**	**1,010,024**
Other assets	**1,047,879**	**664,421**	**(1,302)**	**(216)**	**(733,802)**	**976,980**
	47,819,761	**12,663,956**	**173,717**	**339,080**	**(546,798)**	**60,449,716**
Liabilities						
Due to financial institutions	**359,219**	**546,108**	**76,689**	**248,681**	**47,821**	**1,278,518**
Depositors' accounts	**38,304,067**	**9,651,008**	**172,969**	**90,304**	**1,314**	**48,219,662**
Other liabilities	**1,946,932**	**248,472**	**100,351**	**95**	**30**	**2,295,880**
Tier 2 Wakala capital	**2,207,408**	**-**	**-**	**-**	**-**	**2,207,408**
Sukuk payable	**-**	**2,938,000**	**-**	**-**	**-**	**2,938,000**
	42,817,626	**13,383,588**	**350,009**	**339,080**	**49,165**	**56,939,468**
31 December 2008						
Assets						
Cash and balances with Central Banks	2,669,425	154,516	-	-	10	2,823,951
Balances and Wakala deposits with banks and other financial institutions	769,001	542,386	28,126	1,538	2,186	1,343,237
Murabaha and mudarba with financial institutions	4,131,361	2,683,302	491,230	247,836	-	7,553,729
Murabaha and other Islamic financing	16,564,483	1,773,835	-	-	-	18,338,318
Ijara financing	12,891,206	2,928,054	-	-	21,038	15,840,298
Investments	602,205	556,940	-	6,876	43,013	1,209,034
Other assets	(3,165,949)	4,721,851	(948)	2,160	(507,501)	1,049,613
	34,461,732	13,360,884	518,408	258,410	(441,254)	48,158,180
Liabilities						
Due to financial institutions	1,670,381	1,398,964	334,947	111,170	60,306	3,575,768
Depositors' accounts	27,891,174	9,172,736	259,211	161,074	2,051	37,486,246
Other liabilities	1,508,315	63,620	796	547	52	1,573,330
Sukuk payable	-	2,938,000	-	-	-	2,938,000
	31,069,870	13,573,320	594,954	272,791	62,409	45,573,344

42 **RISK MANAGEMENT** continued

42.4 **Market risk** continued

42.4.3 Equity price risk

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

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

Market Indices	*% Increase in Market Indices 2009*	*Effect on net profit AED '000*	*Effect on equity AED '000*	*% Increase in Market Indices 2008*	*Effect on net profit AED '000*	*Effect on equity AED '000*
Trading investment						
Abu Dhabi Securities Market Index	**10**	**-**	**-**	10	1,337	-
Available-for-sale investments						
Reference equity benchmarks:						
Abu Dhabi Securities Market Index	**10**	**-**	**-**	10	-	1,181
Dubai Financial Market Index	**10**	**-**	**-**	10	-	2,723
Others	**10**	**-**	**-**	10	-	39,617

42.4.4 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or system.

The Bank is developing and implementing a detailed operational risk framework in accordance with industry best practice and Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units across different functions of the Bank involved in performing various operational risk management tasks. The Operational Risk Management Framework ensures that operational risks within the Bank are properly identified, monitored, reported and actively managed. Key elements of the framework include process mapping, management of an Operational loss database, Key Risk Indicators, regular business unit level self assessment, risk analysis and risk management reporting.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operational risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being actively identified, monitored and managed within their respective business units. The day-to-day operational risk is managed also through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedures to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning, which is regularly assessed and tested.

42 RISK MANAGEMENT continued

42.5 Capital management

The Central Bank of UAE sets and monitors capital requirements for the Group as a whole. The Central Bank of UAE vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 11% at all times in which Tier 1 capital should not be less than 7% of the total risk weighted assets. In implementing current capital requirements of the Central Bank of UAE, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and non-controllable interest after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets (Basel II only) and the element of the fair value reserve relating to unrealised gains and losses on equity instruments classified as available-for-sale.

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

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

The Bank has compiled with all externally imposed requirements throughout the year.

The Central Bank of U.A.E vide its notice 27/2009 dated 17 November 2009, requires all the Banks operating in the U.A.E. to implement Standardised approach of Basel II. For credit and market risks, the Central Bank of U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2009.

42 RISK MANAGEMENT continued

42.5 Capital management continued

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2009 and 2008. During those two years, the individual entities within the Group and the Group compiled with all of the externally imposed capital requirements to which they are subject:

	Basel I		Basel II	
	2009	2008	**2009**	2008
	AED 000	AED 000	**AED 000**	AED 000
Tier 1 Capital				
Share capital	**1,970,588**	1,970,588	**1,970,588**	1,970,588
Legal reserve	**1,754,475**	1,753,990	**1,754,475**	1,753,990
General reserve	**321,297**	309,704	**321,297**	309,704
Retained earnings	**724,632**	1,117,078	**724,632**	1,117,078
Proposed dividends	**394,118**	425,631	**394,118**	425,631
Proposed dividends to charity	**1,028**	1,028	**1,028**	1,028
Tier 1 sukuk	**2,000,000**	-	**2,000,000**	-
Non-controlling interest	**2,855**	2,604	**2,855**	2,604
Total	**7,168,993**	5,580,623	**7,168,993**	5,580,623
Tier 2 Capital				
Tier 2 Wakala capital	**2,207,408**	-	**2,207,408**	-
Cumulative changes in fair value	**(167,560)**	(91,366)	**(167,560)**	(91,366)
Collective impairment provision for financing assets	**-**	-	**517,600**	134,647
Total	**2,039,848**	(91,366)	**2,557,448**	43,281
Total Tier 1 and Tier 2 capital	**9,208,841**	5,489,257	**9,726,441**	5,623,904
Deductions for Tier 1 and Tier 2 capital	**(738,132)**	(797,086)	**(738,132)**	(797,086)
Total capital base	**8,470,709**	4,692,171	**8,988,309**	4,826,818
Risk weighted assets				
On balance sheet	**46,226,456**	38,940,600	**-**	-
Off balance sheet	**3,289,496**	678,572	**-**	-
Credit risk	**-**	-	**50,101,278**	39,450,733
Market risk	**-**	-	**585,580**	520,066
Operational risk	**-**	-	**2,323,706**	1,501,526
Total risk weighted assets	**49,515,952**	39,619,172	**53,010,564**	41,472,325
Capital ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	**17.11%**	11.84%	**16.96%**	11.64%
Tier 1 capital expressed as a percentage of total risk weighted assets	**14.48%**	14.09%	**13.52%**	13.46%

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- the fair values of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transaction and dealer quotes for similar instruments.

Except as detailed below, management considers that the carrying values of financial assets and financial liabilities in the consolidated financial statements approximate their fair values.

Quoted investments – at fair value
Quoted investments represents market equities and sukuk that measured at fair value. The fair values of these investments are based on quoted prices as of 31 December 2009. The impact of change in fair valuation from previously existing carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity.

Unquoted investments – at fair value
The consolidated financial statements include unquoted funds, private equities and musharaka which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair valuation from previously existing carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity.

Unquoted investments – at cost
Unquoted investments carried at cost represent such investments for which fair value cannot be measured reliably. Available-for-sale investments of AED 98,677 thousand (2008: 172,045 thousand) are carried at cost. Management intends to hold these investments until the value in these investments is adequately unlocked for optimum return on the investments.

Fair value of investments - at amortised cost

	31 December 2009	
	Carrying amount AED 000	***Fair value AED 000***
Held to maturity investment - sukuk (note 18)	**135,080**	**133,409**

Fair value measurement recognized in the consolidated statement of financial position
The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

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

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

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

43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	Level 1 *AED 000*	*Level 2* *AED 000*	*Level 3* *AED 000*	*Total* *AED 000*
31 December 2009				
Financial assets				
Financial investments available-for-sale				
Quoted investments				
Equities	5,158	-	-	5,158
Sukuk	347,678	-	-	347,678
	352,836	-	-	352,836
Unquoted investments				
Funds	-	-	213,449	213,449
Private equities	-	-	213,852	213,852
Musharaka	-	-	53,900	53,900
	-	-	481,201	481,201
	352,836	-	481,201	834,037
Financial liabilities				
Shari'a compliant alternatives of swap	6,076	-	-	6,076

There were no transfers between level 1, 2 and 3 during the year.

44 COMPARATIVE FIGURES

The comparative figures were reclassified to conform to the current period presentation. Such reclassifications as discussed below have no effect on the previously reported profit or equity of the Group.

- An amount of AED 7,345 thousand has been re-classified from general and administrative expenses to employees' costs in the consolidated statement of income.

- An amount of AED 183,625 has been re-classified from investments to other assets in the consolidated statement of financial position.