Abu Dhabi Islamic Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

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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 consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Bank and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

We also confirm that, in our opinion, the 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 Bank; and the contents of the Chairman's Report relating to these consolidated financial statements are consistent with the books of account. We further report that 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 of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Ernst & Young

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

14 February 2011
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2010

	Notes	*2010* *AED '000*	*2009* *AED '000*
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		**187,719**	344,484
Income from murabaha, mudaraba, ijara and other Islamic financing	5	**3,453,005**	2,742,044
Investment income	6	**75,699**	39,498
Share of results of associates	21	**14,798**	(3,219)
Fees and commission income, net	7	**343,325**	198,574
Foreign exchange income		**29,071**	38,950
Income from investment properties	8	**5,265**	38,900
Income from development properties	9	**(4,300)**	99,845
Other income		**14,441**	(851)
		4,119,023	3,498,225
OPERATING EXPENSES			
Employees' costs	10	**(792,815)**	(634,029)
General and administrative expenses	11	**(431,210)**	(306,104)
Depreciation	22 & 25	**(77,215)**	(53,279)
Provision for impairment, net	12	**(749,212)**	(1,448,819)
		(2,050,452)	(2,442,231)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		**2,068,571**	1,055,994
Distribution to depositors and sukuk holders	13	**(1,045,006)**	(977,968)
PROFIT FOR THE YEAR		**1,023,565**	78,026
Attributable to:			
Equity holders of the Bank		**1,023,345**	77,778
Non-controlling interest	36	**220**	248
		1,023,565	78,026
Basic and diluted earnings per share attributable to ordinary shares (AED)	14	**0.382**	0.008

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	Notes	***2010*** ***AED '000***	*2009* *AED '000*
PROFIT FOR THE YEAR		**1,023,565**	78,026
Other comprehensive income (loss)			
Net realised gain on sale of available-for-sale investments	34	**-**	(9,324)
Net gain (loss) on valuation of available-for-sale investments		**24,899**	(66,867)
Impairment on available-for-sale investments	12	**50,621**	-
Directors' remuneration paid		**(3,000)**	(3,000)
Exchange differences arising on translation of foreign operations	34	**(6,375)**	1,724
Fair value loss on cash flow hedge	34	**(2,566)**	(6,076)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**63,579**	(83,543)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**1,087,144**	(5,517)
Attributable to:			
Equity holders of the Bank		**1,086,924**	(5,768)
Non-controlling interest		**220**	251
		1,087,144	(5,517)

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Notes	2010 AED '000	2009 AED '000
ASSETS			
Cash and balances with central banks	15	**5,400,335**	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions	16	**2,906,382**	2,467,919
Murabaha and mudaraba with financial institutions	17	**12,823,542**	12,189,945
Murabaha and other Islamic financing	18	**22,682,521**	20,910,890
Ijara financing	19	**25,270,071**	19,563,010
Investments	20	**1,639,414**	1,010,024
Investment in associates	21	**837,195**	738,132
Investment properties	22	**191,654**	206,761
Development properties	23	**1,050,445**	931,070
Other assets	24	**1,870,072**	2,356,480
Property and equipment	25	**585,887**	378,825
TOTAL ASSETS		**75,257,518**	64,084,004
LIABILITIES			
Due to financial institutions	26	**891,390**	1,278,518
Depositors' accounts	27	**56,517,045**	48,219,662
Other liabilities	28	**2,091,500**	2,295,880
Tier 2 wakala capital	29	**2,207,408**	2,207,408
Sukuk financing instruments	30	**5,439,523**	2,938,000
Total liabilities		**67,146,866**	56,939,468
EQUITY			
Share capital	31	**2,364,706**	1,970,588
Legal reserve	32	**1,754,899**	1,754,475
General reserve	32	**443,182**	321,297
Retained earnings		**984,069**	724,632
Proposed dividends	33	**511,783**	394,118
Proposed dividends to charity		**6,816**	1,028
Other reserves	34	**42,122**	(24,457)
Equity attributable to the equity holders of the Bank		**6,107,577**	5,141,681
Tier 1 sukuk	35	**2,000,000**	2,000,000
Non-controlling interest	36	**3,075**	2,855
Total equity		**8,110,652**	7,144,536
TOTAL LIABILITIES AND EQUITY		**75,257,518**	64,084,004
CONTINGENT LIABILITIES AND COMMITMENTS	37	**12,156,042**	14,449,339

H.E. Jawaan Awaidha Al Khaili
Chairman

Tirad M. Mahmoud
Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2010

		Attributable to the equity holders of the Bank										
	Notes	*Share capital 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 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 (loss)		-	-	-	74,778	-	-	(80,546)	(5,768)	-	251	(5,517)
Tier 1 sukuk issued to Government of Abu Dhabi	35	-	-	-	-	-	-	-	-	2,000,000	-	2,000,000
Profit paid on Tier 1 sukuk	35	-	-	-	(60,000)	-	-	-	(60,000)	-	-	(60,000)
Dividends paid	33	-	-	-	-	(425,631)	-	-	(425,631)	-	-	(425,631)
Dividends paid to charity		-	-	-	-	-	(1,028)	-	(1,028)	-	-	(1,028)
Transfer to reserves	32	-	485	11,593	(12,078)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(1,028)	-	1,028	-	-	-	-	-
Proposed bonus share dividend to shareholders	33	-	-	-	(394,118)	394,118	-	-	-	-	-	-
Balance at 1 January 2010		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
Total comprehensive income		-	-	-	1,020,345	-	-	66,579	1,086,924	-	220	1,087,144
Profit paid on Tier 1 sukuk	35	-	-	-	(120,000)	-	-	-	(120,000)	-	-	(120,000)
Dividends paid	33	394,118	-	-	-	(394,118)	-	-	-	-	-	-
Dividends paid to charity		-	-	-	-	-	(1,028)	-	(1,028)	-	-	(1,028)
Transfer to reserves	32	-	424	121,885	(122,309)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(6,816)	-	6,816	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(511,783)	511,783	-	-	-	-	-	-
Balance at 31 December 2010		**2,364,706**	**1,754,899**	**443,182**	**984,069**	**511,783**	**6,816**	**42,122**	**6,107,577**	**2,000,000**	**3,075**	**8,110,652**

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Notes	2010 AED '000	2009 AED '000
OPERATING ACTIVITIES			
Profit for the year		**1,023,565**	78,026
Adjustments for:			
Depreciation on investment properties	22	**4,022**	4,644
Depreciation on property and equipment	25	**73,193**	48,635
Share of results of associates	21	**(14,798)**	3,219
Dividend income	6	**(949)**	(7,366)
Realised gain on sale of available-for-sale investments	6	**(25)**	(11,288)
Unrealised gain on held for trading investments	6	**(3,028)**	-
Realised (gain) loss on sale of held for trading investments	6	**(2,205)**	5,378
(Gain) loss on disposal of property and equipment		**(29)**	48
Provision for impairment, net	12	**749,212**	1,448,819
Gain on sale of investment properties	8	**-**	(40,738)
Gain on sale of development properties	9	**(33,603)**	(143,474)
Operating profit before changes in operating assets and liabilities		**1,795,355**	1,385,903
Purchase of certificate of deposits	15	**(900,089)**	-
Increase in balances and wakala deposits with Islamic banks and other financial institutions		**(53,912)**	(200,028)
Decrease (increase) in murabaha and mudaraba with financial institutions		**2,702,632**	(3,671,022)
Increase in murabaha and other Islamic financing		**(2,330,190)**	(3,533,873)
Increase in ijara financing		**(5,705,764)**	(3,923,875)
Purchase of held for trading investments		**(2,125,426)**	-
Proceeds from sale of held for trading investments		**1,794,386**	-
Decrease (increase) in other assets		**307,609**	(340,089)
Decrease in due to financial institutions		**(15,518)**	(369,642)
Increase in depositors' accounts		**8,297,383**	12,940,824
(Decrease) increase in other liabilities		**(204,404)**	693,454
Cash from operations		**3,562,062**	2,981,652
Directors' remuneration paid		**(3,000)**	(3,000)
Net cash from operating activities		**3,559,062**	2,978,652
INVESTING ACTIVITIES			
Dividend received		**949**	7,366
Purchase of available-for-sale investments		**(329,448)**	(299,950)
Proceeds from sale of available-for-sale investments		**61,255**	371,050
Investment in associates		**(90,640)**	(82,821)
Proceeds from liquidation of an associate		-	140,280
Additions to investment properties		-	(3,644)
Proceeds from sale of investment properties		**-**	53,192
Additions to development properties	23	**(75,800)**	(433,144)
Proceeds from sale of development properties	9	**77,485**	349,368
Purchase of property and equipment	25	**(280,255)**	(106,065)
Proceeds from disposal of property and equipment		**29**	106
Net cash used in investing activities		**(636,425)**	(4,262)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	**(120,000)**	(60,000)
Proceeds from issuance of Tier 1 sukuk to Government of Abu Dhabi		-	2,000,000
Proceeds from the issuance of sukuk (second issue)	30	**2,754,375**	-
Repurchase of sukuk (second issue)	30	**(252,852)**	-
Dividends paid		**(2,542)**	(402,611)
Dividends paid to charity		**(1,028)**	(1,028)
Net cash from financing activities		**2,377,953**	1,536,361
INCREASE IN CASH AND CASH EQUIVALENTS		**5,300,590**	4,510,751
Cash and cash equivalents at 1 January		**10,655,313**	6,144,562
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	**15,955,903**	10,655,313

Operating cash flows from profit on balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, customer financing, Islamic sukuk and customer deposits are as follows:

	Notes	2010 AED '000	2009 AED '000
Profit received		**3,454,570**	2,706,034
Profit paid to depositors and sukuk holders	13	**797,399**	760,527

The attached notes 1 to 45 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 Shari'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 66 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 2011.

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 ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended).

3.1.b Accounting convention
The consolidated financial statements have been prepared under the historical cost convention except for held for trading investments, available-for-sale investments, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land which has been carried at re-valued amount.

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*	
			2010	*2009*
Abu Dhabi Islamic Securities Company 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*	Special purpose vehicle	Cayman Island	-	-
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.

*The Bank does not have any direct holding in ADIB Sukuk Company Ltd and is considered to be a subsidiary by virtue of control.

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 income statement 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 2010.

- IFRS 3 *Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets* to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008 and April 2009)

The principal effects of these changes are as follows:

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

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

IFRIC 17 Distribution of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to IFRSs
In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards / amendments to standards which were issued up to 31 December 2010 and are not yet effective for the year ended 31 December 2010 have not been applied while preparing these consolidated financial statements:

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period when they become effective. Management is in the process of assessing the potential impact of the adoption of these standards.

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 judgments, 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 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.

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 income statement 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 individually impaired provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

Collective impairment provisions on financing assets
In addition to specific provisions against individually impaired financing assets, the Bank also makes collective impairment provisions 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.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

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 for quoted equities and the underlying asset base of the investee companies for unquoted equities.

Classification of 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 and development properties
The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 22.

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 affect the reported fair value of the financial instruments.

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Classification of properties
In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

Impairment of investments in associates
Management regularly reviews its investment in associates for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. The difference between the estimated recoverable amount and the carrying value of investment in associate is recognised as an expense in the consolidated income statement.

Impairment review of investment properties and advances paid against purchase of properties
Investment properties and advances paid against purchase of properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

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 income statement on their declaration by the Mudarib.

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

Sale of properties
Revenue on sale of properties is recognised 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.

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 the related services are performed.

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

Gain on sale of 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 carrying amount at which it is recorded in the books.

4 SIGNIFICANT ACCOUNTING POLICIES continued

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 Islamic banks and other financial institutions are stated at amortised cost less amounts written off and provision for impairment, if any.

Murabaha and mudaraba with financial institutions are stated at amortised 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.

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 amortised 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 an independent agreement upon the maturity of the lease and the 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

(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 recorded directly in the consolidated income statement.

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 recognised in the statement of other comprehensive income reported as a separate component of equity until the assets is sold or otherwise disposed of, or the assets is determined to be impaired, at which the cumulative gains of losses previously recognised through the statement of other comprehensive income are included in the consolidated income statement. 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. 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, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent transactions
- option pricing models

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

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

(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 on 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 income statement. 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 income statement.

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.

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 income statement 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 income statement.

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 income statement out of equity to the consolidated income statement. Impairment losses recognised on equity instruments are not reversed through the consolidated income statement.

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 income statement. 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in associates
The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor a joint venture.

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 income statement reflects the share of the results 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 reporting 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 income statement.

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. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

Development properties
Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. 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.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at the revalued amount in the consolidated financial statements.

Depreciation is provided on a straight-line basis over the estimated useful lives of 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 income statement 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 income statement 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 income statement 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 income statement when due.

4 SIGNIFICANT ACCOUNTING POLICIES continued

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.

The Bank enters into cash flows 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.

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 income statement. Amounts accumulated in equity are transferred to the consolidated income statement 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 income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

Zakat
Zakat is computed in accordance with the Articles and Memorandum of Association of the Bank and is approved by the Fatwa and Shari’a Supervisory Board. As stated in the Articles and Memorandum of Association of the Bank, it is the responsibility of the 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 communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 39).

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. Investment in subsidiaries is funded from the shareholders’ funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders’ funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts 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 fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

4 SIGNIFICANT ACCOUNTING POLICIES continued

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 "FSSB", 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 (charity account) to be disposed to charity by the Group under the supervision of the FSSB (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 income statement. 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.

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 income statement 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 income statement.

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 income statement 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 income statement in 'credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated income statement 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

	2010 AED '000	2009 AED '000
Vehicle murabaha	**615,974**	538,213
Goods murabaha	**255,916**	291,459
Share murabaha	**494,955**	260,797
Commodities murabaha – Al Khair	**233,357**	178,515
Other murabaha	**67,248**	99,167
Total murabaha	**1,667,450**	1,368,151
Mudaraba	**189,871**	167,742
Ijara	**1,408,323**	1,078,333
Islamic covered cards	**158,448**	98,686
Istisna'a	**28,913**	29,132
	3,453,005	2,742,044

6 INVESTMENT INCOME

	2010 AED '000	2009 AED '000
Income from Islamic sukuk	**36,272**	22,703
Income from other investment assets	**33,220**	3,519
Dividend income	**949**	7,366
Realised gain on sale of available-of-sale investments	**25**	11,288
Realised gain (loss) on sale of held for trading investments	**2,205**	(5,378)
Unrealised gain on held for trading investments	**3,028**	-
	75,699	39,498

7 FEES AND COMMISSION INCOME, NET

	2010 AED '000	2009 AED '000
Fees and commission income:		
Fees and commission income on cards	**142,160**	84,470
Trade related fees and commission	**61,646**	50,377
Accounts services fees	**66,296**	35,777
Projects and property management fees	**40,129**	29,428
Risk participation and arrangement fees	**30,277**	7,237
Brokerage fees and commission	**17,370**	22,015
Other fees and commissions	**49,695**	46,577
Total fees and commission income	**407,573**	275,881
Fees and commission expenses:		
Card related expenses	**(47,639)**	(35,380)
Other fees and commission expenses	**(16,609)**	(41,927)
Total fees and commission expenses	**(64,248)**	(77,307)
Fees and commission income, net	**343,325**	198,574

8 INCOME FROM INVESTMENT PROPERTIES

	2010 AED '000	2009 AED '000
Proceeds from sale of investment properties	-	53,192
Less: carrying amount as of the date of sale	-	(12,454)
Gain on sale of investment properties	-	40,738
Rental income	5,265	5,432
Other direct expenses	-	(7,270)
	5,265	38,900

9 INCOME FROM DEVELOPMENT PROPERTIES

	2010 AED '000	2009 AED '000
Revenue from sale of development properties	77,485	349,368
Less: cost of properties sold	(43,882)	(205,894)
Gain on sale of development properties	33,603	143,474
Provision for rent guarantee	(37,903)	(21,121)
Other direct expenses	-	(22,508)
	(4,300)	99,845

Provision for rent guarantee represents provision against the minimum rental income guaranteed by a subsidiary of the Bank to the buyers of properties at the time of sale. Rent guarantee is computed as the difference between guaranteed and expected rent as of the reporting date.

10 EMPLOYEES' COSTS

	2010 AED '000	2009 AED '000
Salaries and wages	720,569	581,518
End of service benefits	45,351	32,812
Other staff expenses	26,895	19,699
	792,815	634,029

11 GENERAL AND ADMINISTRATIVE EXPENSES

	2010 AED '000	2009 AED '000
Legal and professional expenses	**96,596**	59,283
Premises expenses	**116,181**	92,048
Marketing and advertising expenses	**95,518**	73,443
Communication expenses	**41,750**	21,313
Technology related expenses	**21,143**	14,588
Other operating expenses	**60,022**	45,429
	431,210	306,104

12 PROVISION FOR IMPAIRMENT, NET

	Notes	2010 AED '000	2009 AED '000
Murabaha and mudaraba with financial institutions	17	**38,902**	186,298
Murabaha and other Islamic financing	18	**558,559**	961,301
Ijara financing	19	**(1,297)**	201,163
Investments, net	20	**50,621**	57,629
Investment properties	22	**18,082**	-
Other assets	24	**84,345**	42,428
		749,212	1,448,819

The above provision for impairment includes AED 119,458 thousand (2009: AED 40,864 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank and reversal of AED 100 thousand (2009: Charge of AED 3,007 thousand) pertaining to Abu Dhabi Islamic Securities Company LLC, an equity brokerage subsidiary of the Bank.

13 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2010 AED '000	2009 AED '000
Depositors and sukuk holders share of profit for the year	**1,045,006**	977,968
Less: pertaining to depositors' profit equalisation reserve (note 27)	**(15,194)**	(49,594)
	1,029,812	928,374
Less: paid during the year	**(797,399)**	(760,527)
Depositors and sukuk holders share of profit payable (note 28)	**232,413**	167,847

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

	2010 AED '000	2009 AED '000
Saving accounts	**83,919**	81,669
Investment accounts by customers	**547,387**	423,095
Investment accounts by financial institutions	**367,431**	427,479
Sukuk holders	**46,269**	45,725
	1,045,006	977,968

14 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the 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 the 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:

	Notes	***2010***	*2009*
Profit for the year attributable to equity holders (AED '000)		**1,023,345**	77,778
Less: profit attributable to Tier 1 sukuk holder (AED '000)	35	**(120,000)**	(60,000)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		**903,345**	17,778
Weighted average number of ordinary shares in issue at 1 January (000's)		**1,970,588**	1,970,588
Effect of bonus shares issued (000's)	33	**394,118**	394,118
Weighted average number of ordinary shares in issue at 31 December (000's)		**2,364,706**	2,364,706
Basic and diluted earnings per share (AED)		**0.382**	0.008

In 2010 and 2009, the Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised.

15 CASH AND BALANCES WITH CENTRAL BANKS

	2010 ***AED '000***	*2009* *AED '000*
Cash on hand	**738,396**	400,315
Balances with central banks:		
- Current accounts	**141,202**	41,243
- Statutory reserve	**3,620,648**	2,889,390
- Islamic certificate of deposits	**900,089**	-
	5,400,335	3,330,948

The Bank is required to maintain statutory reserve with the Central Bank of the UAE in AED and US Dollar on demand, time and other deposits. The statutory 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. Cash on hand and current accounts are not profit-bearing. Islamic certificate of deposits are profit bearing, which is based on entering into international commodities Murabaha transaction in which Central Bank of the UAE is the buyer and the Bank is the seller.

15 CASH AND BALANCES WITH CENTRAL BANKS continued

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

	2010 *AED '000*	*2009* *AED '000*
UAE	**5,374,627**	3,305,240
Middle East	**25,708**	25,708
	5,400,335	3,330,948

16 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 *AED '000*	*2009* *AED '000*
Current accounts	**108,249**	78,410
Wakala deposits	**2,798,133**	2,389,509
	2,906,382	2,467,919

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 Islamic banks and other financial institutions by geographic region is as follows:

	2010 *AED '000*	*2009* *AED '000*
UAE	**2,264,096**	2,281,180
Middle East	**4,509**	4,483
Europe	**34,305**	62,728
Others	**603,472**	119,528
	2,906,382	2,467,919

17 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2010 *AED '000*	*2009* *AED '000*
Murabaha	**12,748,177**	11,957,576
Mudaraba	**265,675**	418,667
	13,013,852	12,376,243
Less: provision for impairment	**(190,310)**	(186,298)
	12,823,542	12,189,945

17 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS continued

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

	2010 AED '000	2009 AED '000
At 1 January	**186,298**	-
Charge for the year (note 12)	**38,902**	186,298
Written off during the year	**(34,890)**	-
At 31 December	**190,310**	186,298

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

	2010 AED '000	2009 AED '000
UAE	**12,193,125**	11,565,133
Middle East	**230,270**	324,292
Europe	**367,421**	228,939
Others	**223,036**	257,879
	13,013,852	12,376,243

18 MURABAHA AND OTHER ISLAMIC FINANCING

	2010 AED '000	2009 AED '000
Vehicle murabaha	**7,904,499**	8,022,334
Goods murabaha	**4,168,262**	4,893,373
Share murabaha	**7,644,552**	4,381,695
Commodities murabaha – Al Khair	**3,654,793**	2,781,555
Other murabaha	**2,295,820**	2,178,763
Total murabaha	**25,667,926**	22,257,720
Mudaraba	**2,763,970**	2,692,246
Islamic covered cards	**4,004,584**	3,226,955
Istisna'a	**301,219**	277,656
Other financing receivables	**116,809**	96,521
Total murabaha and other Islamic financing	**32,854,508**	28,551,098
Less: deferred income	**(8,274,397)**	(6,270,053)
	24,580,111	22,281,045
Less: provision for impairment	**(1,897,590)**	(1,370,155)
	22,682,521	20,910,890

18 MURABAHA AND OTHER ISLAMIC FINANCING continued

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

	2010			2009		
	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	**1,088,461**	**281,694**	**1,370,155**	337,351	72,271	409,622
Charge for the year (note 12)	**551,230**	**7,329**	**558,559**	751,878	209,423	961,301
Written off during the year	**(31,124)**	**-**	**(31,124)**	(768)	-	(768)
At 31 December	**1,608,567**	**289,023**	**1,897,590**	1,088,461	281,694	1,370,155

The distribution of the gross murabaha and other Islamic financing by segment and industry sector and geographic region was as follows:

	2010 AED '000	*2009 AED '000*
Segment and industry sector:		
Wholesale banking		
Government	**242,115**	357,719
Public sector	**89,294**	41,889
Corporates	**5,743,157**	5,482,045
Financial institutions	**614,920**	544,832
	6,689,486	6,426,485
Retail banking		
Individuals	**15,848,819**	13,719,298
Small and medium enterprises	**468,492**	511,199
	16,317,311	14,230,497
Private banking		
Individuals	**1,573,314**	1,624,063
	24,580,111	22,281,045
Geographic region:		
UAE	**23,387,881**	20,972,629
Middle East	**783,656**	819,356
Europe	**377,757**	421,544
Others	**30,817**	67,516
	24,580,111	22,281,045

19 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 documentation include a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	2010 ***AED '000***	*2009* *AED '000*
The aggregate future lease receivables are as follows:		
Due within one year	**6,371,984**	4,335,846
Due in the second to fifth year	**16,739,421**	13,118,485
Due after five years	**8,789,073**	7,770,981
Total ijara financing	**31,900,478**	25,225,312
Less: deferred income	**(6,251,307)**	(5,281,659)
Net present value of minimum lease payments receivable	**25,649,171**	19,943,653
Less: provision for impairment	**(379,100)**	(380,643)
	25,270,071	19,563,010

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

	2010			*2009*		
	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	**144,737**	**235,906**	**380,643**	117,278	62,376	179,654
Charge for the year (note 12)	**(51,712)**	**50,415**	**(1,297)**	27,633	173,530	201,163
Written off during the year	**(246)**	**-**	**(246)**	(174)	-	(174)
At 31 December	**92,779**	**286,321**	**379,100**	144,737	235,906	380,643

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

	2010 ***AED '000***	*2009* *AED '000*
Segment and industry sector:		
Wholesale banking		
Government	**119,191**	45,378
Public sector	**2,173,962**	1,296,053
Corporates	**9,589,736**	6,851,614
Financial institutions	**827,682**	1,015,168
	12,710,571	9,208,213
Retail banking		
Individuals	**6,710,866**	4,806,702
Small and medium enterprises	**240,141**	295,801
	6,951,007	5,102,503

19 IJARA FINANCING continued

	2010 *AED '000*	*2009* *AED '000*
Private banking		
Individuals	**5,856,941**	5,540,156
Non-profit organisations	**130,652**	92,781
	5,987,593	5,632,937
	25,649,171	19,943,653
Geographic region:		
UAE	**24,774,860**	18,957,534
Middle East	**20,890**	26,112
Others	**853,421**	960,007
	25,649,171	19,943,653

20 INVESTMENTS

	2010 *AED '000*	*2009* *AED '000*
Held for trading		
Equities	**6,920**	-
Sukuk	**329,353**	-
	336,273	-
Available-for-sale		
Quoted investments		
Equities	**58,817**	925
Sukuk	**604,280**	298,555
	663,097	299,480
Unquoted investments		
Funds	**223,322**	210,445
Private equities	**281,272**	311,119
Musharaka	**-**	53,900
	504,594	575,464
Total available-for-sale investments	**1,167,691**	874,944
Held to maturity		
Sukuk	**135,450**	135,080
Total investments	**1,639,414**	1,010,024

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.

20 INVESTMENTS continued

All unquoted available for sale equities are recorded at their fair values except for investments amounting to AED 87,935 thousand (2009: AED 181,889 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:

	2010 *AED '000*	*2009* *AED '000*
At 1 January	**57,770**	129,479
Charge for the year (note 12)	**50,621**	57,629
Reversal of provision	**-**	(129,338)
At 31 December	**108,391**	57,770

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

UAE	**1,147,659**	816,101
Middle East	**465,031**	224,417
Europe	**104**	-
Others	**135,011**	27,276
	1,747,805	1,067,794

21 INVESTMENT IN ASSOCIATES

	2010 *AED '000*	*2009* *AED '000*
Cost of investment in associates	**861,273**	770,633
Share of results	**(4,860)**	(19,658)
Foreign currency translation (note 34)	**13,565**	19,940
	869,978	770,915
Less: provision for impairment	**(32,783)**	(32,783)
	837,195	738,132

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

Name of associate	*Place of incorporation*	*Proportion of ownership interest and voting power* *2010* *%*	*2009* *%*	*Principal activity*
Abu Dhabi National Takaful PJSC	UAE	**40**	40	Islamic insurance
BBI Leasing and Real Estate D.O.O	Bosnia	**32**	32	Islamic leasing and real estate
Bosna Bank International D.D	Bosnia	**27**	27	Islamic banking
National Bank for Development	Egypt	**49**	49	Banking (under conversion to Islamic bank)

21 INVESTMENT IN ASSOCIATES continued

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

	2010 *AED '000*	*2009* *AED '000*
Share of associates' statement of financial position		
Assets	**3,634,996**	3,030,807
Liabilities	**(3,879,386)**	(3,562,482)
Net assets	**(244,390)**	(531,675)
Share of associates' revenue and profits (losses):		
Revenue for the year	**105,110**	29,327
Profit (loss) for the year	**14,798**	(3,219)

As of 31 Dec 2010, the Bank's share of the contingent liabilities and commitments of associates amounted to AED 155,040 thousand (2009: AED 166,836 thousand).

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

	2010 *AED '000*	*2009* *AED '000*
UAE	**117,337**	106,091
Europe	**65,083**	67,901
Others	**687,558**	596,923
	869,978	770,915

22 INVESTMENT PROPERTIES

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

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2010:			
Cost			
Balance at 1 January	**30,452**	**185,046**	**215,498**
Transfer from other assets (note 40)	**-**	**6,997**	**6,997**
Gross balance at 31 December	**30,452**	**192,043**	**222,495**
Less: provision for impairment (note 12)	**(5,442)**	**(12,640)**	**(18,082)**
Net balance at 31 December	**25,010**	**179,403**	**204,413**
Accumulated depreciation:			
Balance at 1 January	**-**	**8,737**	**8,737**
Charge for the year	**-**	**4,022**	**4,022**
Balance at 31 December	**-**	**12,759**	**12,759**
Net book value at 31 December	**25,010**	**166,644**	**191,654**

22 INVESTMENT PROPERTIES continued

	Land *AED '000*	*Other properties* *AED '000*	*Total* *AED '000*
2009:			
Cost:			
Balance at 1 January	30,245	194,718	224,963
Additions	207	3,437	3,644
Disposals	-	(13,109)	(13,109)
Balance at 31 December	30,452	185,046	215,498
Accumulated depreciation:			
Balance at 1 January	-	4,748	4,748
Charge for the year	-	4,644	4,644
Relating to disposals	-	(655)	(655)
Balance at 31 December	-	8,737	8,737
Net book value at 31 December	30,452	176,309	206,761

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 5,265 thousand (2009: AED 5,432 thousand).

The fair values of investment properties at 31 December 2010 amounted to AED 203,693 thousand (2009: AED 184,845 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualification and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on the transactions observable in the market or based on valuation models.

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

	Land ***AED '000***	***Other properties*** ***AED '000***	***Total*** ***AED '000***
2010:			
UAE	**21,883**	**179,284**	**201,167**
Middle East	**8,569**	**-**	**8,569**
	30,452	**179,284**	**209,736**
2009:			
UAE	21,883	176,309	198,192
Middle East	8,569	-	8,569
	30,452	176,309	206,761

23 DEVELOPMENT PROPERTIES

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

	2010 *AED '000*	*2009* *AED '000*
Balance at 1 January	**931,070**	688,623
Additions	**75,800**	433,144
Transfers from other assets (note 40)	**87,457**	15,197
Disposals	**(43,882)**	(205,894)
Balance at 31 December	**1,050,445**	931,070

Development properties include land with a carrying value of AED 815,750 thousand (2009: AED 821,382 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2010 *AED '000*	*2009* *AED '000*
Advances against purchase of properties	**1,247,680**	1,288,969
Trade receivables	**214,345**	654,004
Cheques for collection	**3,382**	4,410
Prepaid expenses	**180,571**	90,531
Income receivable	**16,616**	8,418
Advance to contractors	**8,443**	19,607
Advance for investments	**290,017**	290,017
Others	**129,955**	153,463
	2,091,009	2,509,419
Less: provision for impairment	**(220,937)**	(152,939)
	1,870,072	2,356,480

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

	Advances against purchase of properties AED '000	*Trade receivables AED '000*	*Advance for investments AED '000*	*Others AED '000*	*Total AED '000*
At 1 January 2009	-	4,370	106,392	-	110,762
Charge for the year (note 12)	-	42,428	-	-	42,428
Written off	-	(251)	-	-	(251)
At 1 January 2010	-	46,547	106,392	-	152,939
Charge for the year (note 12)	74,031	(100)	-	10,414	84,345
Written off	-	(16,347)	-	-	(16,347)
At 31 December 2010	**74,031**	**30,100**	**106,392**	**10,414**	**220,937**

25 PROPERTY AND EQUIPMENT

	Land (note 34) 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*
2010							
Cost or valuation:							
At 1 January	129,315	14,838	143,932	190,470	9,140	86,771	574,466
Additions	-	-	42,239	95,957	1,102	140,957	280,255
Transfers	-	-	13,476	17,706	-	(31,182)	-
Disposals	-	-			(424)	-	(424)
At 31 December	**129,315**	**14,838**	**199,647**	**304,133**	**9,818**	**196,546**	**854,297**
Depreciation:							
At 1 January	-	2,206	61,748	127,286	4,401	-	195,641
Charge for the year	-	745	22,049	48,603	1,796	-	73,193
Relating to disposals	-	-	-	-	(424)	-	(424)
At 31 December	**-**	**2,951**	**83,797**	**175,889**	**5,773**	**-**	**268,410**
Net book value							
At 31 December	**129,315**	**11,887**	**115,850**	**128,244**	**4,045**	**196,546**	**585,887**
2009							
Cost or valuation:							
At 1 January	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	129,315	14,838	143,932	190,470	9,140	86,771	574,466
Depreciation:							
At 1 January	-	1,462	44,930	97,865	2,977	-	147,234
Charge for the year	-	744	16,818	29,421	1,652	-	48,635
Relating to disposals	-	-	-	-	(228)	-	(228)
At 31 December	-	2,206	61,748	127,286	4,401	-	195,641
Net book value							
At 31 December	129,315	12,632	82,184	63,184	4,739	86,771	378,825

26 DUE TO FINANCIAL INSTITUTIONS

	2010 AED '000	*2009 AED '000*
Current accounts	**240,660**	251,426
Investment deposits	**650,730**	792,296
Murabaha payables	**-**	234,796
	891,390	1,278,518

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

26 DUE TO FINANCIAL INSTITUTIONS continued

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

	2010	*2009*
	AED '000	*AED '000*
UAE	**68,487**	305,524
Middle East	**507,458**	168,659
Europe	**169,147**	241,332
Others	**146,298**	563,003
	891,390	1,278,518

27 DEPOSITORS' ACCOUNTS

	2010	*2009*
	AED '000	*AED '000*
Current accounts	**12,635,323**	11,422,664
Saving accounts	**8,911,158**	6,653,208
Investment accounts	**34,905,776**	30,094,196
Profit equalisation reserve	**64,788**	49,594
	56,517,045	48,219,662
The movement in the profit equalisation reserve during the year was as follows:		
At 1 January	**49,594**	-
Share of profit for the year (note 13)	**15,194**	49,594
At 31 December	**64,788**	49,594

The distribution of the gross depositors' accounts by segment and industry sector, geographic region and currency was as follows:

Segment and industry sector:

Wholesale banking		
Government	**8,736,816**	9,801,118
Public sector	**9,999,671**	8,743,168
Corporates	**7,414,994**	4,785,803
Financial institutions	**2,286,598**	846,043
	28,438,079	24,176,132
Retail banking		
Individuals	**17,588,022**	14,544,206
Small and medium enterprises	**2,891,105**	2,534,324
	20,479,127	17,078,530
Private banking		
Individuals	**4,510,701**	4,798,513
Non-profit organisations	**3,089,138**	2,166,487
	7,599,839	6,965,000
	56,517,045	48,219,662

27 DEPOSITORS' ACCOUNTS continued

	2010 AED '000	2009 AED '000
Geographic region:		
UAE	**56,077,875**	47,937,258
Middle East	**289,220**	11,463
Europe	**1,793**	1,594
Others	**148,157**	269,347
	56,517,045	48,219,662
Currencies:		
UAE Dirham	**46,347,084**	38,304,027
US Dollar	**9,901,370**	9,651,048
Euro	**233,890**	172,969
Sterling Pound	**32,780**	90,304
Others	**1,921**	1,314
	56,517,045	48,219,662

The Bank 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.

28 OTHER LIABILITIES

	2010 AED '000	2009 AED '000
Accounts payable	**566,690**	720,184
Payable for properties	**109,679**	91,008
Accrued profit for distribution to depositors and sukuk holders (note 13)	**232,413**	167,847
Bankers' cheques	**62,108**	128,329
Provision for staff benefits and other expenses	**214,901**	155,067
Retentions payable	**345,815**	378,366
Advances from customers	**29,079**	100,535
Accrued legal and professional charges	**6,729**	6,235
Accrued expenses	**45,569**	70,710
Unclaimed dividends	**51,769**	54,311
Deferred income	**62,932**	39,171
Charity account	**6,000**	6,761
Donation account	**4,198**	6,986
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 38)	**8,642**	6,076
Others	**344,976**	364,294
	2,091,500	2,295,880

29 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.

30 SUKUK FINANCING INSTRUMENTS

	2010	*2009*
	AED '000	*AED '000*
First issue	**2,938,000**	2,938,000
Second issue	**2,501,523**	-
	5,439,523	2,938,000

First issue - USD 800 million
In December 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 sukuk will mature in December 2011. The sukuk deserved profit distribution varies based on the market rate plus a margin.

Second issue - USD 750 million
In November 2010, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,754,375 thousand (USD 750 million) as the second issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2015. The sukuk deserved profit is distributed in accordance with fixed profit rate. During the year, sukuk with a face value of AED 252,852 thousand (USD 68.9 million) were repurchased by the Bank.

Terms of arrangement
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 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 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 AED 5,692,375 thousand (USD 1,550 million).

31 SHARE CAPITAL

	2010 AED '000	2009 AED '000
Authorised share capital:		
3,000,000 thousand (2009: 3,000,000 thousand) ordinary shares of AED 1 each (2009: AED 1 each)	**3,000,000**	3,000,000
Issued and fully paid share capital:		
At 1 January 1,970,588 thousand (2009: 1,970,588 thousand) ordinary shares of AED 1 each (2009: AED 1 each)	**1,970,588**	1,970,588
Bonus shares issued (note 33)	**394,118**	-
At 31 December 2,364,706 thousand (2009: 1,970,588 thousand) ordinary shares of AED 1 each (2009: AED 1 each)	**2,364,706**	1,970,588

32 RESERVES

32.1 Legal reserve

As required by the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended) and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. 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.

32.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the Annual 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.

33 PROPOSED DIVIDENDS

	2010 AED '000	2009 AED '000
Cash dividend: AED 0.2164 per share of AED 1 each (2009: nil)	**511,783**	-
Bonus share dividend: Nil (2009: AED 0.2 per share of AED 1 each)	-	394,118
	511,783	394,118

Cash dividend of 21.64% of the paid up capital relating to year ended 31 December 2010 amounting to AED 511,783 thousand (2009: nil) shall be paid after the approval by the shareholders in the Annual General Assembly.

34 OTHER RESERVES

	Cumulative changes in fair values AED '000	*Land revaluation reserve AED '000*	*Foreign currency translation reserve AED '000*	*Hedging reserve AED '000*	*Total AED '000*
At 1 January 2009	(91,366)	129,239	18,216	-	56,089
Net realised gains on sale of available-for-sale investments	(9,324)	-	-	-	(9,324)
Net loss on valuation of available-for-sale investments	(66,870)	-	-	-	(66,870)
Exchange differences arising on translation of foreign operations	-	-	1,724	-	1,724
Fair value loss on cash flow hedge (note 38)	-	-	-	(6,076)	(6,076)
At 1 January 2010	**(167,560)**	**129,239**	**19,940**	**(6,076)**	**(24,457)**
Net gain on valuation of available-for-sale investments	**24,899**	**-**	**-**	**-**	**24,899**
Impairment on available-for-sale investments (note 12)	**50,621**	**-**	**-**	**-**	**50,621**
Exchange differences arising on translation of foreign operations	**-**	**-**	**(6,375)**	**-**	**(6,375)**
Fair value loss on cash flow hedge (note 38)	**-**	**-**	**-**	**(2,566)**	**(2,566)**
At 31 December 2010	**(92,040)**	**129,239**	**13,565**	**(8,642)**	**42,122**

35 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 of the 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.

36 NON-CONTROLLING INTEREST

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

37 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:

	2010 ***AED '000***	*2009* *AED '000*
Contingent liabilities		
Letters of credit	**1,077,025**	699,577
Letters of guarantee	**7,004,417**	5,709,968
Acceptances	**173,516**	101,094
	8,254,958	6,510,639
Commitments		
Undrawn facilities commitments	**2,047,396**	6,034,200
Investment securities	**144,200**	144,200
Future capital expenditure	**42,325**	144,792
Investment and development properties	**1,667,163**	1,615,508
	3,901,084	7,938,700
	12,156,042	14,449,339

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'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 enter into 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.

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 2010: 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 28)	**8,642**	**915,117**	**-**	**734,500**	**180,617**	**-**
31 December 2009: Notional amount by term to maturity						
Shari'a compliant alternatives of swap (note 28)	6,076	734,500	-	-	734,500	-

39 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 128,696 thousand (2009: AED 121,020 thousand) and accordingly, Zakat is estimated at AED 0.05442 (2009: AED 0.06142) per outstanding share.

40 CASH AND CASH EQUIVALENTS

	2010 *AED '000*	*2009* *AED '000*
Cash and balances with central banks, short term	**4,500,246**	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions, short term	**2,652,442**	2,267,891
Murabaha and mudaraba with financial institutions, short term	**9,304,138**	5,929,007
Due to financial institutions, short term	**(500,923)**	(872,533)
	15,955,903	10,655,313

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

	2010 *AED '000*	*2009* *AED '000*
Transfer from other assets to investment properties (note 22)	**6,997**	-
Transfer from other assets to development properties (note 23)	**87,457**	**15,197**

41 RELATED PARTY 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. 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 impairment.

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

	Major shareholder *AED '000*	*Directors* *AED '000*	*Associates* *AED '000*	*Others* *AED '000*	*Total* *AED '000*
31 December 2010					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	1,195	-	1,195
Income from murabaha, mudaraba, ijara and other Islamic financing	117,620	134	-	152,536	270,290
Fees, commission and foreign exchange income, net	-	-	8,000	-	8,000
Operating expenses	-	183	-	-	183
Distribution to depositors and sukuk holders	59	44	2,083	3,055	5,241

41 RELATED PARTY TRANSACTIONS continued

	Major shareholder AED '000	*Directors AED '000*	*Associates AED '000*	*Others AED '000*	*Total AED '000*
31 December 2009					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	2,378	-	2,378
Income from murabaha, mudaraba, Ijara and other Islamic financing	136,537	359	-	85,478	222,374
Fees, commission and foreign exchange income, net	-	-	24	22	46
Operating expenses	-	348	-	-	348
Distribution to depositors and sukuk holders	1,146	57	1,433	291	2,927

The related party balances included in the consolidated statement of financial position were as follows:

	Major shareholder AED '000	***Directors AED '000***	***Associates AED '000***	***Others AED '000***	***Total AED '000***
31 December 2010					
Balances and wakala deposits with Islamic banks and other financial institutions	**-**	**-**	**569,735**	**-**	**569,735**
Murabaha, mudaraba, ijara and other Islamic financing	**2,270,460**	**8,409**	**-**	**2,556,854**	**4,835,723**
Other assets	**3,982**	**-**	**2,736**	**183,694**	**190,412**
	2,274,442	**8,409**	**572,471**	**2,740,548**	**5,595,870**
Due to financial institutions	**-**	**-**	**1,800**	**-**	**1,800**
Depositors' accounts	**9,785**	**12,713**	**74,344**	**70,075**	**166,917**
Other liabilities	**4**	**-**	**420**	**1,563**	**1,987**
	9,789	**12,713**	**76,564**	**71,638**	**170,704**
Undrawn facilities commitments	**-**	**-**	**1,517**	**-**	**1,517**
31 December 2009					
Balances and wakala deposits with Islamic 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	-	-	1,970	184,422	186,392
	2,338,206	7,380	115,726	1,530,946	3,992,258
Due to financial institutions	-	-	24,681	-	24,681
Depositors' accounts	555	3,976	59,127	48,168	111,826
Other liabilities	-	-	201	174	375
	555	3,976	84,009	48,342	136,882
Undrawn facilities commitments	-	615	-	175,067	175,682

41 RELATED PARTY TRANSACTIONS continued

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

	2010	*2009*
	AED '000	*AED '000*
Salaries and other benefits	**24,051**	22,497
Employees' end of service benefits	**2,253**	2,200
	26,304	24,697

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 via consolidated statement of comprehensive income.

Board of Directors remuneration for 2010 amounting to AED 4,200 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2010, AED 3,000 thousand was paid to Board of Directors pertaining to the year 2009 after the approval by the shareholders in the Annual General Assembly held on 21 April 2010.

42 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision makers of the Bank in order to allocate resources to the segment and to assess its performance. Information reported to the chief operating decision makers for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to the different markets.

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

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.

42 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2010 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, net	2,016,538	709,399	154,634	189,008	5,056	(618)	3,074,017
Operating expenses excluding provision for impairment, net	(850,005)	(174,043)	(77,197)	(54,456)	(82,432)	(63,107)	(1,301,240)
Operating profit (margin)	1,166,533	535,356	77,437	134,552	(77,376)	(63,725)	1,772,777
Provision for impairment, net	(165,465)	(399,509)	(58,730)	(6,050)	(119,458)	-	(749,212)
Profit (loss) for the year	1,001,068	135,847	18,707	128,502	(196,834)	(63,725)	1,023,565
Non-controlling interest	-	-	-	(220)	-	-	(220)
Profit (loss) for the year attributable to equity holders of the Bank	1,001,068	135,847	18,707	128,282	(196,834)	(63,725)	1,023,345
Assets							
Segmental assets	23,481,356	18,572,025	7,323,063	22,258,929	2,908,311	713,834	75,257,518
Liabilities							
Segmental liabilities	21,013,344	20,994,935	7,796,163	16,625,052	376,340	341,032	67,146,866

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, net	1,283,072	570,542	180,006	379,792	97,283	9,562	2,520,257
Operating expenses excluding provision for impairment, net	(618,456)	(143,494)	(57,993)	(51,192)	(86,855)	(35,422)	(993,412)
Operating profit (margin)	664,616	427,048	122,013	328,600	10,428	(25,860)	1,526,845
Provision for impairment, net	(290,990)	(1,049,909)	(56,986)	(10,070)	(40,864)	-	(1,448,819)
Profit (loss) for the year	373,626	(622,861)	65,027	318,530	(30,436)	(25,860)	78,026
Non-controlling interest	-	-	-	(248)	-	-	(248)
Profit (loss) for the year attributable to equity holders of the Bank	373,626	(622,861)	65,027	318,282	(30,436)	(25,860)	77,778
Assets							
Segmental assets	19,390,133	14,987,011	7,082,950	18,546,112	3,470,339	607,459	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

Geographical information

The Bank operates principally in only one geographic area, the United Arab Emirates. Accordingly no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is given.

43 RISK MANAGEMENT

43.1 Introduction

Risk is inherent in all of the Group's activities. 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 operational 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.

43.1.1 Risk management governance structure

Important changes were made during the course of the year to strengthen the overall governance structure of the group in the area of Risk Management. These changes were made as a natural consequence of the growth and development of the Bank's business. The key features are as follows:

The Board of Directors ("Board") continues to have 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.

Group Strategy Execution Committee ("GSEC")
The GSEC created during 2010, is responsible, amongst a number of other duties, for the review and approval of all major exposures and investments, within authorized limits and Board guidelines. The GSEC is appointed by the Board and has been given the delegated authority by the Board to assist the Groups executive management teams execute the Board's strategy and achieve the Group's strategic objectives. The authorities delegated to the GSEC by the Board, as they pertain to the Risk Management Governance function include:

- Reviewing and approving the delegation of approval authority to management in regard to the overall policies and procedures of the Group;
- Approving the authorities delegated to the Group's executives; and
- Approval of significant and high value transactions in regard to credit facilities, acquisitions and divestitures, new business initiatives and proprietary investments within the GSEC's delegation of authority.

Duties and responsibilities of the GSEC are governed by a formally approved charter which is in line with industry best practice. The GSEC replaced the Executive Committee of the Board.

Group Risk Policy Committee ("GRPC")
The GRPC was newly formed during the course of the year. The GRPC is appointed by the Group Board to assist the Board in fulfilling its oversight responsibilities in respect of the following, for the Group:

- Approving and recommending to the Board when necessary the policies, standards, guidelines and procedures for risk assessment and risk management;
- Reviewing and approving the risk inherent in the business of the Group and the control processes with respect to such risks;
- Reviewing and approving the risk profile and the risk appetite of the Group;
- Reviewing the risk management, compliance and control activities of the Group; and
- Review and approve the Internal Capital Adequacy Assessment Process ("ICAAP") and Basel II implementation.

The GRPC is comprised of three directors, all of which are non executive directors, in addition to the Chief Executive Officer ("CEO") and the Group Chief Risk Officer ("GCRO") (non-voting member) and is chaired by a highly experienced and qualified subject matter expert, who is neither a director nor an employee of the Group. Duties and responsibilities of the GRPC are governed by a formally approved charter which is in line with industry best practice.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.1 Risk management governance structure continued

Audit and Governance Committee ("AGC")

The AGC comprises one independent member and two members representing the Board of the Bank. The AGC 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 AGC are governed by a formally approved charter which is in line with best practice.

- The Group Internal Audit Division ("GIAD") reports directly to the AGC, 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 GCRO, who reports directly to the CEO.

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.

43.1.2 The Risk Management Group ("RMG")

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 RMG, headed by the GCRO 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; and
- Maintain the primary relationship with local regulators with respect to risk related issues.

Reporting to the GCRO are senior, seasoned and well qualified individuals who manage specific areas of risk expertise, amongst which are the Chief Credit Officer, the Market Risk Head, the Consumer Risk Head, the Financial Institution and Business Banking Risk Head, the Head of Operational Risk and the Risk Architecture Head, each supported as appropriate by individuals and systems.

During the course of the year, the "Asset Recovery Management Unit" was formed. This is a specialized unit specifically formed to manage corporate and private Bank relationships that are impaired and experiencing difficulties in meeting their obligations to the Bank. It is appropriately staffed with resources possessing the particular expertise and skill set that is required to effectively manage such category of relationship.

Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")

On 27 November 2009, Central Bank of UAE published Circular 27/2009 with regard to Basel II implementation and submission of annual ICAAP report, the first of which was due on 1 March 2010. The Bank's ICAAP was diligently and comprehensively completed and submitted to Central Bank of UAE within the deadline. In addition, a detailed gap analysis was conducted in order to identify the Bank's current status viz-a-viz the requirements necessary to achieving Foundation Internal Ratings Based ("FIRB") approach as detailed in Central Bank of UAE Circular 27/2009. The results were formally presented to the Board together with a detailed plan aimed at achieving full compliance within the target date. This was subsequently approved by the Board. The Basel II FIRB implementation program was initiated in 2nd quarter of 2010, under the leadership of a dedicated Basel II Program Manager and team. As at close of 2010, the program was fully on schedule and progressing well, thus demonstrating the Bank's total commitment to full compliance with the requirements of the circular. This program, apart from meeting the requirements of the regulator, is materially enhancing and strengthening risk management capability of the Bank.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.2 The Risk Management Group ("RMG")continued

Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process is focused on planning, acquiring, and directing the flow of funds through the 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 which describes the objective, role and function of the 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 CEO and normally meets once a month.

Credit Committee

All the business proposals of clients are approved through a committee empowered by the GSEC through the CEO. The Credit Committee 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 Bank 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. The Bank Credit Policy & Procedures manual was extensively revised and enhanced in the first quarter to fully align it with industry best practice.

43.1.3 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; and
- 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.

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.4 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 18 and 19.

43.1.5 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.

43.1.6 Group 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. Group Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the AGC. The Head of Group Internal Audit has direct reporting lines to the AGC in securing his independence and objectivity in all audit engagements undertaken within the Bank.

43.2 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 the use of a very focused target market which defines who the Bank is prepared to deal with from a risk profile perspective, the use of Risk Acceptance Criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty, close monitoring of 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 as financing and these are mitigated by the same control processes and policies.

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.1 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 2010 AED '000***	*Gross maximum exposure 2009 AED '000*
Balances and Wakala deposits with Islamic banks and other financial institutions	16	**2,906,382**	2,467,919
Murabaha and Mudaraba with financial institutions	17	**13,013,852**	12,376,243
Murabaha and other Islamic financing	18	**24,580,111**	22,281,045
Ijara financing	19	**25,649,171**	19,943,653
Investments		**1,145,746**	536,658
Other assets		**372,741**	839,902
		67,668,003	58,445,420
Contingent liabilities	37	**8,254,958**	6,510,639
Commitments		**2,047,396**	6,034,200
Total		**10,302,354**	12,544,839
Total credit risk exposure		**77,970,357**	70,990,259

43.2.2 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 2010 was AED 5,606,752 thousand (2009: AED 4,716,444 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.

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

	Balances and wakala deposits with Islamic 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 2010							
UAE	**2,264,096**	**12,193,125**	**23,387,881**	**24,774,860**	**811,574**	**372,741**	**63,804,277**
Middle East	**4,509**	**230,270**	**783,656**	**20,890**	**313,682**	**-**	**1,353,007**
Europe	**34,305**	**367,421**	**377,757**	**-**	**-**	**-**	**779,483**
Others	**603,472**	**223,036**	**30,817**	**853,421**	**20,490**	**-**	**1,731,236**
Financial assets subject to credit risk	**2,906,382**	**13,013,852**	**24,580,111**	**25,649,171**	**1,145,746**	**372,741**	**67,668,003**
31 December 2009							
UAE	2,281,180	11,565,133	20,972,629	18,957,534	467,282	837,683	55,081,441
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	-	-	1,404,930
Financial assets subject to credit risk	2,467,919	12,376,243	22,281,045	19,943,653	536,658	839,902	58,445,420

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.2 Credit risk concentration continued
The distribution of the Group's financial assets by industry sector is as follows:

	2010	*2009*
	AED '000	*AED '000*
Industry sector:		
Government	**781,084**	696,092
Public sector	**2,263,256**	1,093,703
Financial institutions	**17,475,861**	15,725,189
Trading and manufacturing	**1,598,264**	1,192,246
Construction and real estate	**7,486,697**	5,677,305
Energy	**521,217**	501,384
Personal	**29,989,940**	25,733,701
Others	**7,551,684**	7,825,800
Financial assets subject to credit risk	**67,668,003**	58,445,420

43.2.3 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.

Collective impairment provisions on financing assets
Collective impairment provisions are assessed for losses on customer financing that are not individually significant 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 though 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.

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.4 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 approximating to be AED 1,207,378 thousand as at 31 December 2010 (2009: AED 905,597 thousand).

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

43.2.5 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 balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islmic financing based on the Bank's credit rating system.

	Moody's equivalent grade	*2010 AED '000*	*2009 AED '000*
Low risk			
Risk rating class 1	Aaa	**26,177**	34,569
Risk rating classes 2 and 3	Aa1-A3	**11,379,387**	12,625,304
Risk rating class 4	Baa1-Baa3	**6,910,592**	4,524,467
Risk rating classes 5 and 6	Ba1-B3	**40,388,416**	34,734,774
Fair risk			
Risk rating class 7	Caa1-Caa3	**3,547,708**	2,377,432
Impaired			
Risk rating class 8, 9 and 10		**3,897,236**	2,772,314
		66,149,516	57,068,860

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

Renegotiated murabaha, ijara and other Islamic financings
The total carrying amount of financing whose terms have been renegotiated during the year 2010 amounted to AED - 919,453 thousand (2009: AED 947,431 thousand).

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The table shows the maximum exposure to credit risk / price risk for murabaha, mudaraba, ijara, other Islamic financing and investments.

	Balances and wakala deposits with Islamic banks and other financial institutions 31 December		*Murabaha and mudaraba with financial institutions 31 December*		*Murabaha and other Islamic financing 31 December*		*Ijara financing 31 December*		*Investments 31 December*	
	2010	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*
	AED ‘000	*AED ‘000*	***AED ‘000***	*AED ‘000*	***AED ‘000***	*AED ‘000*	***AED ‘000***	*AED ‘000*	***AED ‘000***	*AED ‘000*
Individually impaired										
Substandard	**-**	-	**186,476**	-	**625,853**	354,738	**846,627**	550,890	**68,142**	6,421
Doubtful	**-**	-	**-**	117,983	**952,964**	699,179	**347,371**	282,057	**91,813**	68,651
Loss	**-**	-	**129,811**	127,306	**789,389**	583,146	**18,745**	57,015	**9,571**	9,571
Gross amount	**-**	-	**316,287**	245,289	**2,368,206**	1,637,063	**1,212,743**	889,962	**169,526**	84,643
Provision for individual impairment	**-**	-	**(190,310)**	(186,298)	**(1,608,567)**	(1,088,461)	**(92,779)**	(144,737)	**(108,391)**	(57,770)
	-	-	**125,977**	58,991	**759,639**	548,602	**1,119,964**	745,225	**61,135**	26,873
Past due but not impaired										
Gross amount	**-**	-	**-**	124,865	**877,558**	712,118	**1,125,280**	1,047,193	**-**	-
Neither past due nor impaired	**2,906,382**	2,467,919	**12,697,565**	12,006,089	**21,334,347**	19,931,864	**23,311,148**	18,006,498	**1,578,279**	983,151
Collective allowance for impairment	**-**	-	**-**	-	**(289,023)**	(281,694)	**(286,321)**	(235,906)	**-**	-
Carrying amount	**2,906,382**	2,467,919	**12,823,542**	12,189,945	**22,682,521**	20,910,890	**25,270,071**	19,563,010	**1,639,414**	1,010,024

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

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 90 days AED '000*	*Total AED '000*
2010					
Murabaha and Mudaraba with financial institutions	**-**	**-**	**-**	**-**	**-**
Murabaha and other Islamic financing	**7,671**	**5,959**	**3,698**	**860,230**	**877,558**
Ijara financing	**17,614**	**24,219**	**52,892**	**1,030,555**	**1,125,280**
	25,285	**30,178**	**56,590**	**1,890,785**	**2,002,838**
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

More detailed information in respect of the allowance for impairment losses on murabaha and mudaraba with financial institutions, murabaha and other islamic financing and ijara financing have been disclosed in notes 17, 18 and 19 respectively.

43.3 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.

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.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

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 when financing are provided to 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 liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

43.3.2 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 reporting date 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 2010					
ASSETS					
Cash and balances with central banks	**4,500,246**	**900,089**	**-**	**-**	**5,400,335**
Balances and wakala deposits with Islamic banks and other financial institutions	**2,652,442**	**253,940**	**-**	**-**	**2,906,382**
Murabaha and mudaraba with financial institutions	**9,304,138**	**3,324,334**	**82,974**	**112,096**	**12,823,542**
Murabaha and other Islamic financing	**2,994,160**	**3,763,028**	**11,296,464**	**4,628,869**	**22,682,521**
Ijara financing	**1,760,939**	**3,460,654**	**13,018,088**	**7,030,390**	**25.270,071**
Investments	**337,198**	**152,631**	**1,149,585**	**-**	**1,639,414**
Investment in associates	**-**	**-**	**-**	**837,195**	**837,195**
Other assets	**222,391**	**183,625**	**31,243**	**4,562**	**441,821**
Financial assets	**21,771,514**	**12,038,301**	**25,578,354**	**12,613,112**	**72,001,281**
Non-financial assets					**3,256,237**
Total assets					**75,257,518**
LIABILITIES					
Due to financial institutions	**500,923**	**390,467**	**-**	**-**	**891,390**
Depositors' accounts	**51,860,160**	**4,433,656**	**221,729**	**1,500**	**56,517,045**
Other liabilities	**978,111**	**665,294**	**448,095**	**-**	**2,091,500**
Tier 2 Wakala capital	**-**	**-**	**-**	**2,207,408**	**2,207,408**
Sukuk financing instruments	**-**	**2,938,000**	**2,501,523**	**-**	**5,439,523**
Total liabilities	**53,339,194**	**8,427,417**	**3,171,347**	**2,208,908**	**67,146,866**

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.2 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 2009					
ASSETS					
Cash and balances with central banks	3,330,948	-	-	-	3,330,948
Balances and wakala deposits with Islamic 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
Investment in associates	-	-	-	738,132	738,132
Other assets	118,629	812,651	41,657	4,043	976,980
Financial assets	15,461,690	13,515,798	23,032,602	9,177,758	61,187,848
Non-financial assets					2,896,156
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 financing instruments	-	-	2,938,000	-	2,938,000
Total liabilities	44,920,418	6,617,885	3,193,693	2,207,472	56,939,468

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 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 2010					
LIABILITIES					
Due to financial institutions	**500,973**	**390,754**	**-**	**-**	**891,727**
Depositors' accounts	**51,906,626**	**4,510,188**	**232,014**	**2,002**	**56,650,830**
Other liabilities	**978,111**	**665,294**	**448,095**	**-**	**2,091,500**
Tier 2 Wakala capital	**-**	**-**	**-**	**2,853,075**	**2,853,075**
Sukuk financing instruments	**-**	**2,958,042**	**3,459,478**	**-**	**6,417,520**
Total liabilities	**53,385,710**	**8,524,278**	**4,139,587**	**2,855,077**	**68,904,652**
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 financing instruments	-	-	3,027,189	-	3,027,189
Total liabilities	44,949,277	6,743,759	3,283,119	2,941,174	57,917,329

The disclosed financial instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.2 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*
2010					
Contingent liabilities	**4,688,822**	**1,680,027**	**1,886,109**	**-**	**8,254,958**
Commitments	**412,810**	**821,035**	**619,843**	**-**	**1,853,688**
Total	**5,101,632**	**2,501,062**	**2,505,952**	**-**	**10,108,646**
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

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

43.4 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.

43 RISK MANAGEMENT continued

43.4 Market risk continued

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 ALCO 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.

43.4.1 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.

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 income statement. The sensitivity of the consolidated income statement 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.

	Increase in basis points 2010	***Sensitivity of profit on financial assets and liabilities AED '000***	*Increase in basis points 2009*	*Sensitivity of profit on financial assets and liabilities AED '000*
Currency				
AED	**50**	**80,657**	50	136,483
USD	**50**	**(6,021)**	50	8,397
Euro	**50**	**825**	50	(74)
Other currencies	**50**	**559**	50	978

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 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 income statement (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 income statement on available-for-sale equity instruments).

Currency	***Increase in currency rate in % 2010***	***Effect on net profit AED '000***	*Increase in currency rate in % 2009*	*Effect on net profit AED'000*
USD	**5**	**(33,766)**	5	(35,982)
Euro	**5**	**(279)**	5	(7,159)
Other currencies	**5**	**43,111**	5	476

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 2010						
Assets						
Cash and balances with central banks	**5,183,368**	**216,887**	**30**	**2**	**48**	**5,400,335**
Balances and wakala deposits with Islamic banks and other financial institutions	**1,754,931**	**1,111,158**	**31,028**	**2,969**	**6,296**	**2,906,382**
Murabaha and mudaraba with financial institutions	**4,758,756**	**7,574,750**	**167,361**	**210,579**	**112,096**	**12,823,542**
Murabaha and other Islamic financing	**21,038,194**	**1,552,740**	**88,719**	**2,868**	**-**	**22,682,521**
Ijara financing	**21,400,362**	**3,815,838**	**-**	**-**	**53,871**	**25,270,071**
Investments	**585,263**	**993,695**	**104**	**-**	**60,352**	**1,639,414**
Investment in associates	**117,337**	**-**	**32,300**	**-**	**687,558**	**837,195**
Other assets	**219,208**	**201,413**	**20,370**	**-**	**830**	**441,821**
	55,057,419	**15,466,481**	**339,912**	**216,418**	**921,051**	**72,001,281**
Liabilities						
Due to financial institutions	**109,859**	**490,350**	**56,065**	**179,937**	**55,179**	**891,390**
Depositors' accounts	**46,347,084**	**9,901,372**	**233,890**	**32,780**	**1,919**	**56,517,045**
Other liabilities	**1,691,900**	**310,562**	**88,939**	**51**	**48**	**2,091,500**
Tier 2 wakala capital	**2,207,408**	**-**	**-**	**-**	**-**	**2,207,408**
Sukuk financing instruments	**-**	**5,439,523**	**-**	**-**	**-**	**5,439,523**
	50,356,251	**16,141,807**	**378,894**	**212,768**	**57,146**	**67,146,866**
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 Islamic banks and other financial institutions	1,343,149	1,056,607	57,904	4,646	5,613	2,467,919
Murabaha and mudaraba 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
Investment in associates	106,091	-	35,118	-	596,923	738,132
Other assets	1,047,879	664,421	(1,302)	(216)	(733,802)	976,980
	47,925,852	12,663,956	208,835	339,080	50,125	61,187,848
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 financing instruments	-	2,938,000	-	-	-	2,938,000
	42,817,626	13,383,588	350,009	339,080	49,165	56,939,468

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.3 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) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	***% Increase in market indices 2010***	***Effect on net profit AED '000***	***Effect on equity AED '000***	*% Increase in market indices 2009*	*Effect on net profit AED '000*	*Effect on equity AED '000*
Held for trading investments						
Abu Dhabi Exchange	**10**	**182**	**-**	10	-	-
Dubai Financial Market	**10**	**510**		10	-	-
Available-for-sale investments						
Others	**10**	**-**	**5,789**	10	-	-

43.4.4 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.

43 RISK MANAGEMENT continued

43.5 Capital management

The Central Bank of the U.A.E sets and monitors capital requirements for the Group as a whole. The Central Bank of the U.A.E 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 12% (2009: 11%) at all times in which Tier 1 capital should not be less than 8% (2009: 7%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, 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, retained earnings, translation reserve and non-controlling 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 financial 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 complied with all externally imposed requirements throughout the year.

The Central Bank of the 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 the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the 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 2010.

43 RISK MANAGEMENT continued

43.5 Capital management continued

The Central Bank of the U.A.E sets and monitors capital requirements for the Group as a whole. The Central Bank of the U.A.E 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 12% (2009: 11%) at all times in which Tier 1 capital should not be less than 8% (2009: 7%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2010 and 2009. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel I		**Basel II**	
	2010	*2009*	***2010***	*2009*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Tier 1 capital				
Share capital	**2,364,706**	1,970,588	**2,364,706**	1,970,588
Legal reserve	**1,754,899**	1,754,475	**1,754,899**	1,754,475
General reserve	**443,182**	321,297	**443,182**	321,297
Retained earnings	**984,069**	724,632	**984,069**	724,632
Proposed dividends	**511,783**	394,118	**511,783**	394,118
Proposed dividends to charity	**6,816**	1,028	**6,816**	1,028
Tier 1 sukuk	**2,000,000**	2,000,000	**2,000,000**	2,000,000
Non-controlling interest	**3,075**	2,855	**3,075**	2,855
Total	**8,068,530**	7,168,993	**8,068,530**	7,168,993
Tier 2 capital				
Tier 2 wakala capital	**2,207,408**	2,207,408	**2,207,408**	2,207,408
Cumulative changes in fair value	**(92,040)**	(167,560)	**(92,040)**	(167,560)
Collective impairment provision for financing assets	**-**	-	**575,344**	517,600
Total	**2,115,368**	2,039,848	**2,690,712**	2,557,448
Total tier 1 and tier 2 capital	**10,183,898**	9,208,841	**10,759,242**	9,726,441
Deductions for Tier 1 and Tier 2 capital	**(837,195)**	(738,132)	**(837,195)**	(738,132)
Total capital base	**9,346,703**	8,470,709	**9,922,047**	8,988,309
Risk weighted assets				
On balance sheet	**54,666,166**	46,226,456	-	-
Off balance sheet	**4,263,158**	3,289,496	-	-
Credit risk	-	-	**58,320,901**	50,101,278
Market risk	-	-	**1,008,157**	585,580
Operational risk	-	-	**2,565,177**	2,323,706
Total risk weighted assets	**58,929,324**	49,515,952	**61,894,235**	53,010,564
Capital ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	**15.86%**	17.11%	**16.03%**	16.96%
Tier 1 capital expressed as a percentage of total risk weighted assets	**13.69%**	14.48%	**13.04%**	13.52%

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value
Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For available for sale investments, 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 through consolidated statement of comprehensive income.

Unquoted investments – at fair value
The consolidated financial statements include investments in 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 value from previously existing carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment in associates (note 21) and available-for-sale investments that are carried at cost (note 20)), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

Fair value of investments - at amortised cost

	31 December 2010		31 December 2009	
	Carrying amount AED '000	***Fair value AED '000***	*Carrying amount AED '000*	*Fair value AED '000*
Held to maturity investment - sukuk (note 20)	**135,450**	**141,971**	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.

44 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 2010				
Financial assets				
Held for trading investments				
Equities	**6,920**	**-**	**-**	**6,920**
Sukuk	**329,353**	**-**	**-**	**329,353**
	336,273	**-**	**-**	**336,273**
Available-for-sale investments				
Quoted investments				
Equities	**58,817**	**-**	**-**	**58,817**
Sukuk	**604,280**	**-**	**-**	**604,280**
	663,097	**-**	**-**	**663,097**
Unquoted investments				
Funds	**-**	**-**	**140,110**	**140,110**
Private equities	**-**	**-**	**276,549**	**276,549**
	-	**-**	**416,659**	**416,659**
	999,370	**-**	**416,659**	**1,416,029**
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	**-**	**8,642**	**-**	**8,642**

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

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2009				
Financial assets				
Available-for-sale investments				
Quoted investments				
Equities	925	-	-	925
Sukuk	298,555	-	-	298,555
	299,480	-	-	299,480
Unquoted investments				
Funds	-	-	125,823	125,823
Private equities	-	-	213,852	213,852
Musharaka	-	-	53,900	53,900
	-	-	393,575	393,575
	299,480	-	393,575	693,055
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	-	6,076	-	6,076

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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

	At 1 January 2010 AED '000	***Fair value gain / (loss) recorded in income statement AED '000***	***Gains / (losses) recorded in equity AED '000***	***Transfers, purchases and settlements AED '000***	***At 31 December 2010 AED '000***
Unquoted investments					
Funds	**125,823**	**-**	**(19,266)**	**33,553**	**140,110**
Private equities	**213,852**	**(23,081)**	**(7,718)**	**93,496**	**276,549**
Musharaka	**53,900**	**-**	**-**	**(53,900)**	**-**
	393,575	**(23,081)**	**(26,984)**	**73,149**	**416,659**

	At 1 January 2009 AED '000	*Fair value gain / (loss) recorded in income statement AED '000*	*Gains / (losses) recorded in equity AED '000*	*Transfers, purchases and settlements AED '000*	*At 31 December 2009 AED '000*
Unquoted investments					
Funds	118,129	-	(18,472)	26,166	125,823
Private equities	268,181	-	(54,329)	-	213,852
Musharaka	57,700	-	(3,800)	-	53,900
	444,010	-	(76,601)	26,166	393,575

45 COMPARATIVE FIGURES

Following comparatives were reclassified to conform to the current period presentation. The reclassification has no effect on the previously reported profit or equity of the Group:

- An amount of AED 38,950 thousand has been re-classified from "fees and commission income, net" and shown separately in the consolidated income statement as "foreign exchange income".