In the Name of Allah
The most Gracious and Merciful

مصرف الإمارات الإسلامي
EMIRATES ISLAMIC BANK

(Public Joint Stock Company)

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Consolidated Financial Statements

As at 31 December 2010

Emirates Islamic Bank (PJSC)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

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Independent auditors' report

The Shareholders
Emirates Islamic Bank PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Emirates Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income (comprising a separate consolidated statement of income and a consolidated statement of comprehensive income), changes in equity and cash flow statement for the year then ended, and notes, comprising 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 Islamic Shari'a principles 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.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group, and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2010, which may have had a material adverse effect on the business of the Group's or its consolidated financial position.

Munther Dajani
Registration No.:268
25 JAN 2011

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Emirates Islamic Bank (PJSC)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

	Note	2010 AED'000	2009 AED'000
ASSETS			
Cash, and balances with U.A.E Central Bank	4	1,121,466	1,161,562
Due from banks	5	68,813	127,229
Due from Group Holding Company, net	6	12,372,274	1,656,526
Financing receivables	7	14,625,722	16,705,800
Investments	8	2,839,960	3,780,070
Investment properties	9	849,809	458,796
Investment properties under development	10	468,109	1,004,491
Prepayments and other assets	11	295,857	327,249
Fixed Assets	12	104,505	67,916
TOTAL ASSETS		**32,746,515**	**25,289,639**
LIABILITIES			
Customers' accounts	13	24,222,865	19,418,087
Due to banks	14	3,712,076	1,207,526
Other liabilities	15	790,822	696,172
Zakat payable		11,704	13,121
Investment wakala	16	1,081,872	1,081,872
TOTAL LIABILITIES		**29,819,339**	**22,416,778**
SHAREHOLDERS' EQUITY			
Share capital	17	2,430,422	2,314,688
Statutory reserve	18	206,865	200,738
General reserve	18	112,644	106,517
Cumulative changes in fair value	19	-	(6,679)
Retained earnings		86,804	165,234
TOTAL SHAREHOLDERS' EQUITY		**2,836,735**	**2,780,498**
Non-controlling interest	20	90,441	92,363
TOTAL EQUITY		**2,927,176**	**2,872,861**
TOTAL LIABILITES AND EQUITY		**32,746,515**	**25,289,639**
COMMITMENTS AND CONTINGENT LIABILIITES	21	**4,208,558**	**4,077,092**
ASSETS UNDER MANAGEMENT	22	**1,485,550**	**1,485,550**

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 25 January 2010 and signed on their behalf by:

Chairman **Chief Executive Officer**

The attached notes 1 to 41 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1

Emirates Islamic Bank (PJSC)
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2010

	Note	2010 AED'000	2009 AED'000
INCOME			
Income from financing activities, net	23	919,883	1,053,600
Income from investment securities, net	24	49,091	12,300
Income from Group Holding Company, net	25	345,419	121,553
Property related income, net	26	23,016	18,926
Commission and fee income, net	27	148,732	204,354
Other operating income, net	28	165,396	107,684
TOTAL INCOME		**1,651,537**	**1,518,417**
EXPENSES			
General and administrative expenses	29	(378,623)	(392,645)
Depreciation of investment properties		(17,189)	(9,783)
TOTAL EXPENSES		**(395,812)**	**(402,428)**
NET OPERATING INCOME BEFORE ALLOWANCES FOR IMPAIRMENT		**1,255,725**	**1,115,989**
Allowances for impairment, net of recoveries and reversals	30	(530,526)	(373,744)
NET OPERATING INCOME AFTER ALLOWANCES FOR IMPAIRMENT		**725,199**	**742,245**
Investment, saving and wakala accounts' share of profit	31	(665,859)	(611,977)
NET PROFIT BEFORE NON-CONTROLLING INTEREST		**59,340**	**130,268**
Non-controlling interest	32	1,922	526
SHAREHOLDERS' PROFIT (NET INCOME)		**61,262**	**130,794**
Earnings per share (Dirham)	33	0.03	0.07

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Emirates Islamic Bank (PJSC)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	2010	2009
	AED'000	AED'000
SHAREHOLDERS' PROFIT (NET INCOME)	**61,262**	**130,794**
Other comprehensive income:		
Cumulative changes in fair value reserve	6,679	(18,372)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**67,941**	**112,422**
Attributable to:		
Equity holders of the Bank	66,019	111,896
Non-controlling interest	1,922	526
TOTAL RECOGNISED INCOME FOR THE YEAR	**67,941**	**112,422**

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Emirates Islamic Bank (PJSC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK							
	Share capital	Statutory reserve	General reserve	Cumulative changes in fair value	Retained earnings	Total	Non-Controlling Interest	Group Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
As at 1 January 2009	934,375	187,659	93,438	11,693	354,032	1,581,197	92,889	1,674,086
Net profit for the year	-	-	-	-	130,794	130,794	-	130,794
Other comprehensive loss for the year	-	-	-	(18,372)	-	(18,372)	(526)	(18,898)
Issue of bonus shares	280,313	-	-	-	(280,313)	-	-	-
Issue of right shares	1,100,000	-	-	-	-	1,100,000	-	1,100,000
Transfer to reserves	-	13,079	13,079	-	(26,158)	-	-	-
Zakat payable	-	-	-	-	(13,121)	(13,121)	-	(13,121)
As at 31 December 2009	**2,314,688**	**200,738**	**106,517**	**(6,679)**	**165,234**	**2,780,498**	**92,363**	**2,872,861**
As at 1 January 2010	2,314,688	200,738	106,517	(6,679)	165,234	2,780,498	92,363	2,872,861
Net profit for the year	-	-	-	-	61,262	61,262	-	61,262
Other comprehensive profit for the year	-	-	-	6,679	-	6,679	(1,922)	4,757
Issue of bonus shares	115,734	-	-	-	(115,734)	-	-	-
Transfer to reserves	-	6,127	6,127	-	(12,254)	-	-	-
Zakat payable	-	-	-	-	(11,704)	(11,704)	-	(11,704)
As at 31 December 2010	**2,430,422**	**206,865**	**112,644**	**-**	**86,804**	**2,836,735**	**90,441**	**2,927,176**

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Emirates Islamic Bank (PJSC)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

OPERATING ACTIVITIES	Note	2010 AED'000	2009 AED'000
Shareholders' profit (net income)		61,262	130,794
Adjustments:			
Allowances for impairment on financing receivables, net		283,259	372,481
Allowances for impairment on investments, net		107,925	(9,720)
Allowances for impairment on investment properties		17,756	10,283
Allowances for impairment on investment properties under development, net		121,586	-
Allowances for impairment on other assets		-	700
Dividend income		(12,411)	(30,993)
Gain on sale of investments		(18,360)	-
Gain on sale of investment properties		(3,772)	-
Gain on recognition of donated land		(46,200)	-
statement of income		32,391	112,608
Depreciation on investment properties		17,189	9,783
Depreciation on fixed assets		25,224	23,589
Cumulative changes in fair value		6,679	(18,372)
Operating profit before changes in operating assets and liabilities		**592,528**	**601,153**
Changes in reserve with U.A.E Central Bank		(62,447)	143,609
Changes in due from Group Holding Company		(1,250,453)	(15,066)
Changes in financing receivables		1,796,819	777,349
Changes in prepayments and other assets		31,392	265,215
Changes in customers' accounts		4,804,778	(164,565)
Changes in investment wakala accounts		-	(940,000)
Changes in due to banks' investment wakala accounts		2,505,376	(809,092)
Changes in other liabilities		94,650	(308,571)
Zakat paid		(13,121)	(17,185)
Net cash generated from / (used in) operating activities		**8,499,522**	**(467,153)**
INVESTING ACTIVITIES			
Redemptions of investment securities' net of purchases		576,429	237,421
Proceeds from sale of investment securities		241,725	-
Dividend income received		12,411	30,993
Changes in investment properties		(435,889)	(85,015)
Proceeds from sale of investment properties		13,703	-
Changes in investment properties under development		414,796	(144,945)
Changes in fixed assets, net		(15,613)	(34,886)
Net cash generated from investing activities		**807,562**	**3,568**
FINANCING ACTIVITIES			
Changes in non-controlling interest		(1,922)	(526)
Issue of right shares		-	1,100,000
Net cash generated (used in) / from financing activities		**(1,922)**	**1,099,474**
Net change in cash and cash equivalents		**9,305,162**	**635,889**
Cash and cash equivalents at the beginning of the year	34	5,929,364	5,293,475
Cash and cash equivalents at the end of the year	34	**15,234,526**	**5,929,364**

The attached notes 1 to 41 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 1

1 LEGAL STATUS AND ACTIVITIES

Emirates Islamic Bank formerly Middle East Bank (the "**Bank**") was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with limited liability in the Emirate of Dubai on 3rd of October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995 and is regulated by Central Bank of United Arab Emirates.

At an extraordinary general meeting held on 10th of March 2004, a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Sharia. The entire process was completed on 9th of October 2004 (the "Transformation Date") when the Bank obtained UAE Central Bank and other UAE authorities' approvals.

The Bank is a subsidiary of Emirates NBD PJSC, Dubai (the "Group Holding Company"). The ultimate parent company of the Group Holding Company is Investment Corporation of Dubai, the company in which the Government of Dubai is the major shareholders. The Bank is listed at Dubai Financial Market.

In addition to its head office in Dubai, the Bank operates through 30 branches in the UAE. The Financial Statements combine the activities of the Bank's head office and its branches and the following two subsidiaries (together referred as "the Group").

	Date of Incorporation & Country	Principal Activity	Ownership %
Emirates Islamic Financial Brokerage Co. LLC	26 April 2006, UAE	Financial brokerage services	100%
Ithmar Real Estate Development Co. PSC	9 June 2008, UAE	Real estate holding and trust companies	40%

The Bank exercises the controls on the management of Ithmar Real Estate Development Co. PSC through holding the majority of votes of its Board of Directors.

The Bank provides full commercial and banking services and offers a variety of products through Islamic financing and investing instruments in accordance with Islamic Sharia.

As of 31 December 2010 the Bank employed 1,097 employees (31 December 2009: 1,153 employees).

The Bank's registered office address is P.O. Box 6564, Dubai, United Arab Emirates.

2 BASIS OF PREPERATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), Sharia rules and principles as approved by the Group's Fatwa and Sharia Supervisory Board and applicable requirements of UAE laws.

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the following, which are measured at fair value:
- Financial assets at fair value through statement of income.
- Certain available- for-sale financial assets.

c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham (AED), which is the Group's functional currency. Except as indicated, financial information has been rounded to nearest thousand.

2 BASIS OF PREPERATION *(Continued)*

d) Basis of consolidation

-Subsidiaries

Subsidiaries are all entities over which the Bank exercises control, directly or indirectly over the financial and operating policies so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which the Bank exercises control. It is de-consolidated from the date that control ceases. These consolidated financial statements include the operations of the subsidiaries over which the Bank has control. These consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Intra-group balances, and income and expenses except for foreign currency transaction gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are also eliminated in the same way as unrealized gain, but only to the extent there is no evidence of impairment.

-Funds under Management

The Group manages and administers assets held in other investment vehicles on behalf of investors. The Financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in note 22.

e) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the management to use certain critical accounting estimates. It also requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. Significant items where use of estimates and judgments required are outlined below.

i. Allowances for impairment of financing receivables and investment products

The Group reviews its financing receivables and investment products to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from homogeneous group of Islamic financing and investment products. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually impaired Islamic financing and investing assets, the Group also makes a collective impairment allowance to recognize, at any reporting date that there will be an amount of Islamic financing and investment products which are impaired even though a specific trigger point for recognition of the loss has not yet occurred (known as the "emergence period").

ii. Fair Value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from quoted prices such instruments are recorded at cost.

iii. Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolong requires judgment. In making this judgment, the Group evaluates several market and non market factors.

2 BASIS OF PREPERATION *(Continued)*

iv. Impairment of non financial assets

At each consolidated reporting date, the Bank reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such condition exists the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell or value in use.

3 SIGNIFICANT ACCOUNTING POLICIES

During the year, the Group has adopted the following standards/amendments effective for the annual periods beginning on 1 January 2010. There is no impact of these changes on Group's statement of income or earnings per share.

New and revised accounting standards and interpretations effective on 1 January 2010:

IAS 1 (amendment) – Presentation of financial statements	Amendment in the definition of current liability.
IAS 36 (amendment) – Impairment of assets	Allocation of goodwill to the largest cash generating unit for the purpose of impairment testing to be considered as an operating segment.
IFRS 2 (amendment) – Share based payment	Guidance on Group cash-settled share based payment transactions.
IFRS 5 (amendment) – Non-current assets held for sale and discontinued operations	Amendment specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

Significant accounting policies are given below.

a) Non-derivative financial instruments

(1) Classification

The Group's classifications of financial instruments include the following categories: financing receivables, held-to-maturity, available-for-sale, investment securities designated at fair value through statement of income, and other financial assets.

Financing receivables

- **Murabaha:** An agreement whereby the Group sells to a customer a commodity or a property which the Group has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.

- **Financing Ijarah**: An agreement whereby the Group (lesser) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.

- **Istisna'a**: An agreement between the Group and a customer, whereby the Group develops and sells a property to the customer according to agreed upon specifications. The Group may develop the property on its own or through a subcontractor, and then hand it over to the customer on a pre agreed date and against fixed price.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

- **Mudaraba**: An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal, and the other provides efforts and expertise and is called Mudarib who is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of profit as Mudaraba fee. In case of normal loss; Rab-Ul-Mal would bear the loss of his funds while Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, the Mudarib would bear the losses. The Group may acts as Mudarib when accepting funds from the holders of investment, saving and wakala accounts and as Rub-Ul-Mal when investing such funds on Mudaraba basis.

Held-to-maturity

Held to maturity are non derivative financial assets with fixed or determinable amounts and fixed maturity that the Group's management has the positive intent and ability to hold to maturity. Investments in Sukuk constitute majority of held to maturity assets which have been defined as follows:

Sukuk: Products governed by Islamic Sharia rules and approved by the Group's Fatwa and Sharia Supervisory Board, are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or in the ownership of the assets of particular projects or special investment activity

Available-for-sale investments

Available-for-sale investments are non derivative assets that are not designated as another category of financial assets. Unquoted equity securities for which fair value cannot be reliably measured are carried at cost less impairment losses, if any and other quoted available-for-sale investments or for which fair value can be reliably measured are carried at fair value.

Investment securities designated at fair value through profit and loss

The Group has designated financial assets at fair value through statement of income, where assets are managed, evaluated and reported internally on a fair value basis. This eliminates or significantly reduces an accounting mismatch which otherwise arises.

Financial assets classified under these categories are equity shares and funds. Investments are initially recognised at cost excluding transaction cost and subsequently measured at fair value. Any gain or losses arising from subsequent fair value measurement are recognised in consolidated statement of income.

(2) Recognition of financial instruments.

Financial assets and liabilities are recognised on the trade date at which the Group becomes a party to the contractual provision of the instruments and commits to purchase or sell the assets. Financing receivables are recognised on the day the risk on underlying asset is transferred to the counter party or in accordance with the contractual terms.

(3) Derecognition of financial instruments.

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expire, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets are transferred to other party.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a) Non-derivative financial instruments *(continued)*

(4) Fair value measurement

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

All financial instruments are recognised initially at cost including transactions cost except for financial assets at fair value through statement of income.

All financial receivables are measured at amortised cost less impairment losses, if any.

Gains and losses arising from a change in the fair value of the assets at fair value through statement of income are recognised in the consolidated statement of income. Gains and losses on available-for-sale investments are recognised through consolidated statement of comprehensive income, until the financial assets is derecognised or impaired at which time the cumulative gain or loss previously recognised in comprehensive income is recognised in the consolidated statement of income.

Subsequent to initial measurement all assets at fair value through statement of income are measured at fair value, except for instruments that do not have quoted market price in an active market and their fair value cannot be measured reliably are stated at cost, including transaction cost, less any impairment losses, if any.

(5) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial assets or liability is measured at initial recognition, minus principal repayment, plus or minus the cumulative amortisation using the effective profit rate method of any differences between the initial amount recognised and the maturity amount, minus impairment losses, if any.

(6) Offsetting

Financial assets and liabilities are offseted and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

(7) Measurement of impairment

The recoverable amounts of financing receivables are measured at the present value of the expected future cash flows, discounted at the instrument's original effective yield. Short term balances are not discounted.

Financing receivables are presented net of allowances for impairment. Specific allowance are made against the carrying amount of financing receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these financing receivables to their estimated recoverable amounts at the reporting date. The expected cash flows for portfolio of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and payments history. When a debt is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the receivable is written off directly.

If in a subsequent period the impairment improves and improvement can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a) Non-derivative financial instruments *(continued)*

(7) Identification and measurement of impairment (continued)

Impairment losses on assets carried at amortised cost are measured at the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective profit rate. Losses are recognised in consolidated statement of income and reflected in an allowance account against financial receivables. Profit on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment to improve, the improvement in impairment is reversed through consolidated statement of income.

Impairment losses on available-for-sale investment are recognised in consolidated statement of income by transferring the cumulative loss that has been recognised directly in consolidated statement of comprehensive income. The cumulative loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in consolidated statement of income. Improvement in impairment provisions are reflected as a component of income.

If, in a subsequent period, the fair value of an impaired available-for-sale investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated statement of income, the impairment provision is reversed, with the amount of the reversal recognised in consolidated statement of income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised directly in consolidated statement of other comprehensive income.

In addition to the specific identified losses in the corporate financing portfolio, the group also introduced a portfolio impairment provisions methodology for its regular/ performing portfolio to cover the inherent risk of losses. Provision is made based on historical loss experience of different economic sectors adjusted by management best estimate of current and future market conditions.

b) Cash reserve requirement

Central Bank of UAE requires certain percentage of customer account balances to be kept as cash reserve with the central Bank. Such reserve does not earn any profit.

c) Due from banks

Represents the Bank's balances with correspondent banks, and are stated at cost less allowance for impairment, if any.

d) Investment properties

Properties held for rental income or capital appreciation purposes or for both are classified as investment property.

Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Buildings are depreciated over the period of 25 years.

Impairment testing is conducted at each reporting date using methods specified in International Financial Reporting Standard.

Investment properties are dercognised when either they have been disposed off or when they are permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Investment properties under development

Properties acquired for future development either for its own use or for sale after development are classified as investment properties under development and are stated as cost less impairment, if any.

The cost of investment properties under development includes the cost of land and other related expenditures which are capitalised.

Impairment testing is conducted at each reporting date using methods specified in International Financial Reporting Standard.

f) Fixed Assets

Fixed assets include both leased and owned asset are recorded at cost, less accumulated depreciation and impairment allowance, if any. Depreciation is provided on a straight-line basis over estimated useful lives of all fixed assets, other than freehold land which is not depreciated. Useful lives of assets are mentioned below:

Leasehold improvements	3 years
Furniture	4 years
Equipments	4 years
Motor vehicles	3 years
Computer hardware	4 years
Computer software	3 years

Fixed assets not commissioned “FANC” are stated at cost. When commissioned, they are transferred to the appropriate fixed assets category and depreciated in accordance with the Group's policies.

g) Customer accounts

The Bank accepts customer investment and savings accounts are either on Mudaraba basis or on Wakala basis, where as current accounts and other similar in nature accounts are guaranteed by the Bank.

h) Investment Wakala

Investment Wakala is an agreement whereby one party (the "Muwakkil" / "Principal") appoints an investment agent (the "Wakeel" / "Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital and is payable regardless the said Wakala generates profit or loss; while the share of the profit, if any, is an incentive for the Wakeel to achieve a return higher than expected. The Wakala profit, if any, goes to the Muwakkil, and he bears the loss. However, the Wakeel bears the loss in cases of default, negligence or violation of any of the terms of the Investment Wakala.

i) Revenue recognition

Murabaha
The profit is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Ijarah
Income from Ijarah is recognised on an accrual basis on effective yield method.

Wakala
Estimated income from Wakala is recognised on an accrual basis effect over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Revenue recognition *(continued)*

Istisna'a
Income from Istisna'a represents the profit during the construction period of the underlying assets and is calculated based on the time proportioned basis.

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

Dividend income
Dividend income is recognised in the consolidated statement of income when Bank's right to receive income is established.

Commissions and fees
Commissions and fees are accounted from the date of transaction when the service has been provided by the bank, giving rise to that income.

Rental Income
Rental income from investment properties are recognised in the consolidated statement of income on a straight line basis over the term of lease.

Forfeited income
Forfeited income is resulting from transactions deemed to be incompliant with Islamic Sharia, as per the Fatwa and Sharia Supervisory Board. The Bank's management has to separate such income and set aside from the Bank's income and disclose it in the financial statements. This income is directed towards local social activities.

j) Provision for end of service benefits

Provision is made for end of service benefits to its expatriate employees in accordance with the UAE labor law. The entitlement of these benefits is based upon the employees' basic salary and length of service, subject to a completion of a minimum service period. These benefits are accrued over the period of employment. Provision for employees' end of service benefits at the reporting date is included under "Other Liabilities".

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

k) Zakat

The Bank discharges Zakat (Alms) as per its Articles of Association. The Bank calculates Zakat based on the guidance of its Fatwa and Sharia Supervisory Board as follows:

- Zakat on shareholders' equity (except paid up capital) is discharged from the retained earnings.
- Zakat is disbursed to Sharia channels through a committee formed by management.
- Shareholders themselves are responsible to pay Zakat on their paid up capital.

Zakat on the general provision or on other reserves, if any, is calculated and discharged from the share of profit of the respective parties participating in the Mudaraba Pool.

l) Profit distribution

Profit distribution between the unrestricted account holders (investment, saving and Wakala accounts) and the Shareholders, is according to the instructions of the Bank's Fatwa and Sharia supervisory board.

- Net income realised from Mudaraba Pool, at the end of each quarter, represents the net profit available for distribution.
- Net profit available for distribution between unrestricted account holders and shareholders is calculated after deducting the Mudarib fee as per the agreed and declared percentage.
- Profit Distribution is on a pro rata-basis of the weighted average balances of unrestricted customers accounts and Shareholders' funds. No priority is given to either party in the Mudaraba Pool.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m) Cash and cash equivalents

Cash and cash equivalent consists of cash at bank, current account with the UAE Central Bank, due from banks and Group Holding Company (including short-term Murabaha) less due to banks and Group Holding Company. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with outstanding maturities up to three months from the date of consolidated statement of financial position.

n) Contingent liabilities

Contingent liabilities are not recognised in the consolidated statements of financial position. These are disclosed unless the possibility of an outflow of funds embodying economic benefits is remote.

o) Earnings per share

The calculation of earnings per share is calculated by dividing the profit or loss for the year by the weighted average number of shares outstanding during the year

p) Operating segment

A segment is a principal component of the Bank that is engaged either in providing products or services. The Group presents segment information in respect of its business segment in accordance with the internal management model.

q) Foreign currencies

Transactions in foreign currencies are translated to UAE Dirham at the foreign exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirham at the foreign exchange rates prevailing at that date. Non-monetary assets denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirham at the foreign exchange rates prevailing at the date of such transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Foreign currency gains and losses arising on translation are recognised in the consolidated statement of income.

r) New standards and interpretation not yet adopted

The standards and interpretations that are issued up to 31 December 2010 but not yet effective for accounting periods ending 31 December 2010 are as follows:

IFRS - 9 Financial Instruments: Effective 1 January 2013;
IFRS 7 Financial instrument disclosure (Improvements) 1 January 2011
IAS 17 Leases (Improvements) 1 January 2011
IAS - 24 (Revised) – Related Party Disclosures: Effective 1 January 2011;
IFRIC-14 Prepayment of minimum funding requirement: Effective 1 January 2011.

Bank is assessing the impact of these changes and preparing itself for implementation at respective due dates.

4 CASH, AND BALANCES WITH U.A.E CENTRAL BANK

	2010	2009
	AED'000	AED'000
Cash in hand	88,220	82,657
Balances with U.A.E Central Bank:		
Current accounts	24,508	132,614
Reserve requirements	1,008,738	946,291
	1,121,466	**1,161,562**

5 DUE FROM BANKS

Due from local banks	46	22
Due from foreign banks	68,767	127,207
	68,813	**127,229**

6 DUE FROM GROUP HOLDING COMPANY, NET

Murabaha, short term	15,447,417	6,728,037
Wakala	(3,370,420)	(5,856,032)
Deposit exchange (profit free), net	30,820	624,922
Other balances	264,457	159,599
	12,372,274	**1,656,526**

7 FINANCING RECEIVABLES

	2010	2009
	AED'000	AED'000
Commodities Murabaha	1,832,801	2,174,907
Vehicles Murabaha	2,443,028	2,708,570
Syndication Murabaha	215,884	99,761
Real Estates Murabaha	360,664	187,315
Total Murabaha	4,852,377	5,170,553
Istisna'a	1,570,624	1,939,609
Ijarah	5,829,779	6,083,606
Credit card receivables	531,474	529,520
Secured Overdrafts	608,540	950,185
Financing Wakala	2,631,590	3,270,782
	16,024,384	17,944,255
Less: Deferred income	(576,329)	(699,381)
Less: Allowances for impairment	(822,333)	(539,074)
	14,625,722	**16,705,800**
Movements in allowances for specific impairment:		
Balance at the beginning of the year	345,026	201,320
Allowances for impairment made during the year	264,560	189,959
Recoveries/write backs during the year	(29,101)	(11,526)
Provision transferred to loans & receivables	-	(34,727)
Balance at the end of the year	**580,485**	**345,026**
Movements in allowances for collective impairment:		
Balance at the beginning of the year	194,048	-
Allowances for impairment made during the year	47,800	194,048
Balance at the end of the year	**241,848**	**194,048**
	822,333	**539,074**

8 INVESTMENTS

	2010	2009
	AED'000	AED'000
Fair value through profit and loss		
Equity shares	143,381	149,878
Funds	492,834	521,261
	636,215	671,139
Available-for-sale		
Equity shares	657,086	862,108
Funds	895,745	920,463
	1,552,831	1,782,571
Held-to-maturity		
Sukuks	776,710	1,344,231
	2,965,756	3,797,941
Less: Impairment on investments	(125,796)	(17,871)
	2,839,960	**3,780,070**
Investment securities comprise:		
Quoted	702,287	792,199
Unquoted	2,137,673	2,987,871
	2,839,960	**3,780,070**
Investments located at:		
Investments within UAE	1,118,008	1,526,377
Investments outside UAE	1,721,952	2,253,693
	2,839,960	**3,780,070**

8 INVESTMENTS *(continued)*	2010	2009
	AED'000	AED'000
Movements in allowances for impairment:		
Balance at the beginning of the year	17,871	27,591
Allowances for impairment made during the year	107,925	7,282
Write back during the year	-	(17,002)
Balance at the end of the year	**125,796**	**17,871**

8.1 FAIR VALUE OF FINANCIALS ASSETS

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2010				
Available-for-sale financial assets	136,417	-	1,416,414	1,552,831
Financial assets designated at fair value through profit and loss	462,871	173,344	-	636,215
	599,288	**173,344**	**1,416,414**	**2,189,046**
31 December 2009				
Available-for-sale financial assets	121,059	-	1,661,512	1,782,571
Financial assets designated at fair value through profit and loss	463,030	208,109	-	671,139
	584,089	**208,109**	**1,661,512**	**2,453,710**

Reconcilation of securities categorised as level 3		
Balance at the beginning of the year	1,661,512	1,609,981
Investment made during the year	-	53,567
Repayment/redemptions during the year	(244,989)	-
Revaluation of foreign currency investment	(109)	(2,036)
Balance at the end of the year	**1,416,414**	**1,661,512**

9 INVESTMENT PROPERTIES

	2010	2009
	AED'000	AED'000
Balance at the beginning of the year	494,419	409,404
Properties purchased during the year	-	65,659
Transfer from investment properties under development (note 10)	435,889	19,356
Properties sold	(9,931)	-
	920,377	494,419
Less: Accumulated depreciation	(42,529)	(25,340)
Less: Allowances for impairment	(28,039)	(10,283)
	849,809	**458,796**
Investment properties comprise:		
Lands	133,906	156,090
Buildings, net	715,903	302,706
Balance at the end of the year	**849,809**	**458,796**
Movements in allowances for impairment:		
Balance at the beginning of the year	10,283	-
Allowances for impairment made during the year	17,756	10,283
Balance at the end of the year	**28,039**	**10,283**

The fair value of investment properties as of 31 December 2010 is AED 849,809,000 (2009: AED 458,796,000), based on valuation conducted by independent valuers and management's own assessment for expected usage of these buildings to their useful lives.

All investment properties are located within the United Arab Emirates.

10 INVESTMENT PROPERTIES UNDER DEVELOPMENT

	2010	2009
	AED'000	AED'000
Balance at the beginning of the year	1,004,491	859,546
Addition during the year	21,693	175,603
Transfer to investment properties (note 9)	(435,889)	(19,356)
Transfer to other assets/fixed assets	(600)	(11,302)
	589,695	1,004,491
Less: Allowance for impairment	(121,586)	-
	468,109	**1,004,491**

All investment properties under development are located within the United Arab Emirates.

11 PREPAYMENTS AND OTHER ASSETS

Dividend and profit receivable	8,356	18,172
Overdraft accounts (profit free)	67,516	161,292
Bills under Letters of Credits	28,336	-
Prepaid expenses	22,235	16,224
Deferred sales commissions	16,058	21,880
Contingent customer acceptances	73,602	93,205
Goods available-for-sale	8,532	13,633
Others	76,627	8,248
	301,262	**332,654**
Less: Allowance for impairment	(5,405)	(5,405)
	295,857	**327,249**

12 FIXED ASSETS

	Freehold land	Leasehold improvements	Furniture	Equipments	Motor vehicles	Computer hardware & software	Fixed assets not commissioned (FANC)	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost								
As at 1 January 2010	-	61,896	13,420	17,638	1,200	31,237	22,394	147,785
Additions	46,200	1,611	308	568	84	1,043	12,624	62,438
Transfer from FANC	-	9,722	556	467	-	250	(10,995)	-
Disposals	-	(2,898)	-	(72)	(77)	(486)	-	(3,533)
As at 31 December 2010	**46,200**	**70,331**	**14,284**	**18,601**	**1,207**	**32,044**	**24,023**	**206,690**
Accumulated depreciation								
As at 1 January 2010	-	(40,223)	(6,881)	(11,624)	(1,017)	(20,124)	-	(79,869)
Charge for the year	-	(13,919)	(2,997)	(2,923)	(129)	(5,256)	-	(25,224)
Disposals	-	2,796	-	72	40	-	-	2,908
As at 31 December 2010	**-**	**(51,346)**	**(9,878)**	**(14,475)**	**(1,106)**	**(25,380)**	**-**	**(102,185)**
Net book value								
As at 31 December 2010	**46,200**	**18,985**	**4,406**	**4,126**	**101**	**6,664**	**24,023**	**104,505**
As at 31 December 2009	**-**	**21,673**	**6,539**	**6,014**	**183**	**11,113**	**22,394**	**67,916**

The Government of Dubai has donated the Group a non-monetary asset in the form of land which has been recognised at a fair value of AED 46,200,000.

13 CUSTOMERS' ACCOUNTS

	2010	2009
	AED'000	AED'000
Current accounts	3,736,722	3,993,677
Saving accounts	1,377,822	1,739,459
Investment accounts	8,579,626	9,161,432
Wakala accounts	10,434,266	4,361,466
Margins	94,429	170,733
Cumulative changes in fair value	-	(8,680)
	24,222,865	**19,418,087**

Customers' accounts concentrated as follows:

Resident customer accounts	23,136,315	18,647,609
Non-Resident customer accounts	1,086,550	770,478
	24,222,865	**19,418,087**

14 DUE TO BANKS

	2010	2009
	AED'000	AED'000
Current Accounts	4,169	5,376
Clearing accounts with U.A.E Central Bank	391	-
Overdraft with correspondents	7	17
Investment accounts	79,426	-
Wakala accounts	3,628,083	1,202,133
	3,712,076	**1,207,526**

Due to banks concentrated as follows:

Due to local banks	3,357,050	1,149,614
Due to foreign banks	355,026	57,912
	3,712,076	**1,207,526**

15 OTHER LIABILITIES

	2010 AED'000	2009 AED'000
Investment, saving and wakala accounts' share of profit for the last quarter (Note 31)	219,922	150,857
Provision for employees' benefit	61,900	47,783
Manager Cheques	109,266	83,286
Trade payables	33,962	124,626
Contingent customer acceptances	73,602	93,205
Properties related liabilities	211,969	168,740
Forfeited income	637	281
Customer related liabilities	49,785	15,528
Others	29,779	11,866
	790,822	**696,172**

16 INVESTMENT WAKALA

The Bank has received funds, on Wakala basis, aggregating to AED 1,081,872,000 in December 2008 from the Ministry of Finance, Government of UAE, payable after five years (extendable up to seven years), subject to certain conditions as per the Wakala agreement.

17 SHARE CAPITAL

	2010 AED 000	2009 AED 000
Authorised Share Capital		
3,000,000,000 (2009: 3,000,000,000) ordinary shares of AED 1 each (2009: AED 1 each)	**3,000,000**	**3,000,000**
Issued and fully paid up capital		
2,430,422,000 (2009: 2,314,688,000) ordinary shares of AED 1 each (2009: AED 1 each)	**2,430,422**	**2,314,688**

18 STATUTORY RESERVE & GENERAL RESERVE

In accordance with the Bank's Articles of Association, Article (82) of Union Law no. 10 of 1980 and Federal Commercial Companies Law, the Bank transfers 10% of Shareholders' annual net income, if any, to the statutory reserve until such reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

A further 10% of Shareholders' annual net income, if any, is transferred to the general reserve until it reaches 10% of the paid-up capital. This transfer may be suspended by an ordinary General Meeting, based on Board of Directors' recommendation. The Board of Directors proposes the use of the general reserve at its discretion.

19 CUMULATIVE CHANGES IN FAIR VALUE

Cumulative changes in fair value represent revaluation surplus/ (deficit) on available-for-sale investment for the year.AED NIL (2009: AED 6,679,000) represents the shareholders' portion disclosed under consolidated statement of comprehensive income.

20 NON-CONTROLLING INTEREST

Non controlling interest of AED 90,441,000 (2009: AED 92,363,000) represents the 60% of shares of Ithmar Real Estate Development Co. not owned by the Bank (note 1).

21 COMMITMENTS AND CONTINGENT LIABILIITES

The Bank provides letters of guarantee and letters of credit to meet the requirements of its customers. These commitments have fixed limits and expirations, and are not concentrated in any period, and are arising in the normal course of business, as follows:

	2010 AED'000	2009 AED'000
Letters of guarantee	2,672,211	2,981,643
Letters of credit	404,703	459,056
Irrevocable financing commitments	1,069,488	571,141
Capital expenditure commitments	29,005	23,006
Commitments in respect of operating lease	33,151	42,246
	4,208,558	**4,077,092**
Commitments in respect of operating lease		
Less than one year	17,515	14,662
Between one and five years	15,485	27,584
More than five years	151	-
	33,151	**42,246**

22 ASSETS UNDER MANAGEMENT

a) Sukuk assets

During June 2007, the Bank has facilitated issuance of “Investment Sukuk” aggregating to AED1,285,550,000 (US$ 350,000,000) (2009: AED 1,285,550,000) through the sale of “Ijarah Assets” at carrying value to Emirates Islamic Bank Sukuk Company Limited (“the Issuer”). These Sukuk are issued by the Issuer who is also acting as the trustee for the Sukuk holders.

The issuer, by the virtue of the Management Agreement, has assigned the management of the sukuk assets of the issuer to the Bank. The Bank is managing these assets for management fees in accordance with the provisions of this agreement.

On maturity of the Sukuk, the Sukuk holder has the option to redeem the Sukuk at face value. This option is guaranteed by the Group Holding Company of the Bank. Therefore the separate financial statements of the Bank and its subsidiaries have shown these assets as Off Balance Sheet as required by the Bank’s Fatwa and Sharia Supervisory Board.

b) Wakala assets

The balance of Wakala assets under management as at 31 December 2010 is AED 200,000,000 (2009: AED 200,000,000) and belongs to the Group Holding Company which bears the risks of these assets.

23 INCOME FROM FINANCING ACTIVITIES, NET

	2010	2009
	AED'000	AED'000
Commodities Murabaha	120,080	180,124
Vehicles Murabaha	174,869	196,476
Syndication Murabaha	9,105	4,329
Real Estates Murabaha	18,901	11,429
Istisna'a	50,444	71,869
Ijarah	407,557	395,567
Income from Financing Wakala	131,441	192,736
Others	7,486	1,070
	919,883	**1,053,600**

24 INCOME FROM INVESTMENT SECURITIES, NET

Realized loss - fair value through statement of income	(5)	-
Realised gain - available for sale investments	18,365	-
Unrealised loss - fair value through statement of income	(32,391)	(112,608)
Dividend Income - fair value through statement of income	12,411	17,848
Dividend Income - available-for-sale investments	-	13,145
Investing profit - available-for-sale investments	3,741	3,981
Investing profit - held-to-maturity investments	46,970	89,934
	49,091	**12,300**

25 INCOME FROM GROUP HOLDING COMPANY, NET

Short term murabaha	496,940	318,466
Profit on investment wakala	(151,521)	(196,913)
	345,419	**121,553**

26 PROPERTY RELATED INCOME, NET

	2010	2009
	AED'000	AED'000
Rental income	24,040	22,364
Gain on sale of investment properties	3,772	-
Property related expenses	(4,796)	(3,438)
	23,016	**18,926**

27 COMMISSION AND FEE INCOME, NET

Commissions & fees	61,135	99,322
Portfolio & management fees	6,507	13,185
Underwriting fees	-	19,433
Sukuk management fees	57,102	45,115
Others	24,090	27,614
	148,834	**204,669**
Less: Commissions & fees paid	(102)	(315)
	148,732	**204,354**

28 OTHER OPERATING INCOME, NET

Foreign exchange gains, net	32,489	22,340
Credit cards	84,510	69,626
Others	48,397	15,718
	165,396	**107,684**

Others include gain of AED 46.2 million is recognised on land donated by Government of Dubai (Note 12).

29 GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
	AED'000	AED'000
Staff related expenses	(268,740)	(280,124)
Operating expenses	(55,639)	(51,494)
Administrative expenses	(29,020)	(37,438)
Depreciation of fixed assets	(25,224)	(23,589)
	(378,623)	**(392,645)**

30 ALLOWANCES FOR IMPAIRMENT, NET OF RECOVERIES AND REVERSALS

Financing receivables		
Allowances made during the year	(312,360)	(384,007)
Recoveries	29,101	11,526
	(283,259)	(372,481)
Investments		
Allowances made during the year	(107,925)	(7,282)
Reversal	-	17,002
	(107,925)	9,720
Investments Properties	(17,756)	(10,283)
Investment Properties Under Development	(121,586)	-
Prepayments and other assets	-	(700)
	(530,526)	**(373,744)**

31 INVESTMENT, SAVING AND WAKALA ACCOUNTS' SHARE OF PROFIT

The distribution of profit between unrestricted account holders (investment, saving and wakala accounts) and shareholders is made, quarterly, in accordance with the method approved by the Bank's Fatwa and Sharia Supervisory Board.

	2010	2009
	AED'000	AED'000
Paid during the year	(445,937)	(461,120)
Payable for the last quarter (Note 15)	(219,922)	(150,857)
	(665,859)	**(611,977)**

32 NON-CONTROLLING INTEREST

The balance of AED 1,922,000 (2009: AED 526,000) represents the loss for the year ended 31 December 2010 of 60% on shares (not owned by the Bank) of Ithmar Real Estate Development Company.

33 EARNINGS PER SHARE

The calculation of earnings per share is based on earnings of AED 61,262,000 (2009: AED 130,794,000), for the year divided by the weighted average of the number of shares outstanding during the year: 2,430,422,000 shares (2009: 1,880,422,000 shares).

No figures for diluted earnings per share have been presented as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

34 CASH AND CASH EQUIVALENTS

	2010	2009
	AED'000	AED'000
Cash	88,220	82,657
Current account with U.A.E Central Bank	24,508	132,614
Due from Group Holding Company maturing within 3 months	15,057,552	5,592,257
Due from banks	68,813	127,229
Due to banks	(4,567)	(5,393)
	15,234,526	**5,929,364**

35 RELATED PARTY TRANSACTIONS

The Bank has transactions carried out in the normal course of business with the Emirates NBD Group and with certain staff, shareholders, directors and entities in which the Bank, its shareholders and directors have significant interests.

Related party transactions are as follows:

	2010	2009
	AED'000	AED'000
Consolidated statement of income		
Loss from funds managed by Group Holding Company, net of dividend	(18,474)	(57,442)
Income from Group Holding Company, net	345,419	121,553
Key management personnel compensations	13,105	12,225
Key management personnel compensations - retirements benefits	431	754
Consolidated statement of financial position		
Due from Group Holding Company, net	12,372,274	1,656,526
Investment in funds managed by the Group	492,834	521,261
Financing receivables - Directors & affiliates	48,844	96,052
Financing receivables - Key management personnel & affiliates	14,404	36,113
Current and Investment accounts - Directors	15,546	15,695
Current and Investment accounts - Key management personnal	14,512	14,580
Assets under management		
EIB Sukuk Company	1,285,550	1,285,550
Wakala- Group Holding Company	200,000	200,000

36 OPERATING SEGMENT

The Bank's activities comprise the following main business segments:

Corporate and Investment
Within this business segment, the Bank provides to corporate customers a range of products and services and accepts their deposits. This segment invests in investment securities, Sukuk, Funds and Real Estate.

Retail
Retail segment provides a wide range of products and services to individuals and accepts their deposits.

Treasury
This segment mainly includes Murabaha deals with Emirates NBD.

36 OPERATING SEGMENT *(continued)*

	Corporate & Investment		Retail		Treasury		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Consolidated statement of income								
Segment income	771,848	794,529	285,530	304,270	258,701	121,553	1,316,079	1,220,352
Inter segment wakala income	(244,707)	(393,874)	344,353	358,648	(99,646)	35,226	-	-
Commission, Fees & Other Income	140,687	161,986	137,669	121,488	57,102	14,591	335,458	298,065
Total income	**667,828**	**562,641**	**767,552**	**784,406**	**216,157**	**171,370**	**1,651,537**	**1,518,417**
General and administrative expenses	(124,044)	(130,324)	(254,579)	(262,321)	-	-	(378,623)	(392,645)
Depreciation of investment properties	(17,189)	(9,783)	-	-	-	-	(17,189)	(9,783)
Total expenses	**(141,233)**	**(140,107)**	**(254,579)**	**(262,321)**	**-**	**-**	**(395,812)**	**(402,428)**
Net operating income	**526,595**	**422,534**	**512,973**	**522,085**	**216,157**	**171,370**	**1,255,725**	**1,115,989**
Allowances for impairment, net of recoveries and reversals	(405,020)	(197,387)	(125,506)	(176,357)	-	-	(530,526)	(373,744)
	121,575	**225,147**	**387,467**	**345,728**	**216,157**	**171,370**	**725,199**	**742,245**
Investment, saving and wakala accounts' share of profit	(316,600)	(244,530)	(349,259)	(367,447)	-	-	(665,859)	(611,977)
Non-controlling interest	1,922	526	-	-	-	-	1,922	526
Shareholders' (loss)/profit (net income)	**(193,103)**	**(18,857)**	**38,208**	**(21,719)**	**216,157**	**171,370**	**61,262**	**130,794**

36 OPERATING SEGMENT *(continued)*

	Corporate & Investment		Retail		Treasury		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Consolidated statement of financial position								
Assets								
Segment assets	13,881,925	15,800,382	4,901,677	5,161,820	12,553,814	1,999,027	31,337,416	22,961,229
Central Bank Reserve Requirements	403,495	378,516	605,243	567,775	-	-	1,008,738	946,291
Unallocated assets	-	-	-	-	-	-	400,361	1,382,119
Total Assets	**14,285,420**	**16,178,898**	**5,506,920**	**5,729,595**	**12,553,814**	**1,999,027**	**32,746,515**	**25,289,639**
Liabilities and Equity								
Segment liabilities	12,262,204	6,832,606	16,928,118	15,019,842	2,875,983	2,782,014	32,066,305	24,634,462
Unallocated liabilities	-	-	-	-	-	-	589,769	562,814
Non-controlling interest	90,441	92,363	-	-	-	-	90,441	92,363
Total Liabilities and Equity	**12,352,645**	**6,924,969**	**16,928,118**	**15,019,842**	**2,875,983**	**2,782,014**	**32,746,515**	**25,289,639**

37 RISK MANAGEMENT

Risk management framework and processes:

The complexity in the Group's business operations and diversity of geographical locations requires identification, measurement, aggregation and effective management of risk. The Group manages its risks through a comprehensive risk management framework which incorporates organisational structure, risk measurement and monitoring processes.

The key features of the Group's comprehensive risk management framework are:

- The Board of Directors ("the Board") has the overall responsibility of managing risk and provides the overall risk management direction and oversight.
- The Group's overall risk management process is managed by the Group risk management function ("Group Risk"), headed by the Chief Risk Officer ("CRO"). This function is independent of the business divisions.
- Credit, market, operational and liquidity risks are managed in a coordinated manner within the organization.
- Board committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework.

Each department of the Bank is responsible for:

- Identifying and measuring the risks that the Bank is exposed to and considering whether those risks are significant;
- Developing and recommending for approval appropriate risk management policies and procedures regarding those activities and business units which are susceptible to significant risk, including business continuity plans. All risk management policies must be approved by the Board of Directors;
- Providing direction regarding the Bank's overall risk philosophy and risk tolerance, including considering whether certain new business proposals referred to EXCO are acceptable from a risk management perspective;
- Monitoring compliance with risk management policies and procedures;
- Adherence to risk guidelines under Basel II, and
- Reporting any policy or major practice changes, unusual situations, significant exceptions and new strategies to the Board of Directors for review, approval and/or ratification.

Distributions of profit to shareholders and unrestricted customers' accounts (investment, saving and wakala accounts') is subject to a comprehensive risk management system that is reviewed at the management level, the Sharia Board level and ALCO level to maintain the appropriate distribution levels taking into account the Bank's performance, competitors' profit distributions and market conditions.

a. Credit Risk

Credit risk is the risk that a customer or counter party in a financial assets fails to meet its contractual obligations and causes the Group to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposure, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Credit risk management and structure:

The approach to credit risk management is based on the foundation of preserving the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures in the business segments.

The Group's credit policy focuses on the core credit policies and includes lending parameters, target businesses, specific policy guidelines, management of high risk customers, provisioning guidelines and cross over activity.

The Board of Directors (BOD) and the Board Credit and Investment Committee ("BCIC") have delegated authority to certain members of the senior management to facilitate and effectively manage the business. A chain of specific delegated limits are vested upon individuals starting from business unit levels to the Chief Executive Officer ("CEO"). However, the Board and the BCIC retain the ultimate authority to approve larger credits.

37 RISK MANAGEMENT *(continued)*

a. Credit Risk *(continued)*

Management of corporate credit risk:

The process of managing corporate credit risk is as follows:

- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends and the customer's standing within the industry.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations.
- Borrower risk grading – Presently each borrower is rated on a scale of 1 to 5, in line with Central Bank of the UAE requirements. While preparing Internal rating models, each borrower is also in parallel risk graded along a 28 grade Master scale according to its risk characteristics. The Master scale introduced during the latter part of the year has twenty-four performing grades from 1a to 4f and four non-performing or default grades from 5a to 5d. Rating models have been developed and implemented across various business segments of the Group, and are presently under validation/testing.
- Management of high risk accounts – This includes identification of delinquent accounts and controls applicable for close monitoring. Policies on profit suspension and provisioning are strictly adhered to thereby reflecting actual income and quality of assets.
- Exceptions monitoring and management – Exceptions are monitored and managed in line with credit policies.

Management of consumer credit risk:

- An independent unit formulates retail credit policies and monitors compliance.
- Policies are reviewed and updated on a regular basis to ensure that current market trends are considered on a timely basis.
- Retail lending is handled through a workflow driven system that assists underwriters in assigning limits and in the approval of exceptions.
- All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk and reward dynamics.
- The risk grade of an account reflects the associated risks measured by the delinquency history. Application and behavior probability of defaults ("PDs") are used to map retail exposures to the Masters scale, which is presently under validation/testing.

Credit risk monitoring:

The Group's exposures are continuously monitored through a system of triggers and early warning signals, which are used in the risk grading process. These are supplemented by monitoring of account conduct, valuation of collateral and market intelligence.

The health of the Group's credit portfolio is continuously assessed/ monitored on the basis of exception/management information reports/returns generated by the business units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

A specialised "Special Loans Group" team handles the management and collection of problem credit facilities.

37 RISK MANAGEMENT *(continued)*

a. Credit Risk *(continued)*

Group credit risk mitigation strategy:

The Group operates within:

1. Exposure ceilings imposed by the Central Bank of the UAE;
2. Exposure ceilings imposed by the Board / BCIC / management;
3. Country limits approved by the Board / BCIC / management; and
4. Various sectoral / product ceilings.

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by setting customer, industry and geographical limits.

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

Analysis by Economic Activity for Assets

	2010 AED'000		2009 AED'000	
	Financing Receivables	Others	Financing Receivables	Others
Agriculture and related activities	629	-	1,112	-
Mining and quarrying	46	-	4,744	-
Manufacturing	319,907	116,048	351,652	350,772
Construction	773,486	2,310	956,505	2,197
Trade	674,356	-	801,753	-
Transportation and communication	195,299	2,023	299,541	4,987
Services	1,010,152	124,375	1,755,595	87,730
Sovereign	-	179,240	-	171,083
Personal	4,339,120	-	4,747,416	-
Real estates	6,723,216	1,491,191	6,369,168	2,105,977
Financial institutions	1,893,208	1,026,110	2,418,948	1,202,424
Others	94,965	93,272	237,821	-
Total	16,024,384	3,034,569	17,944,255	3,925,170
Less: Deferred income	(576,329)	-	(699,381)	-
Less: Allowances for impairment	(822,333)	(125,796)	(539,074)	(17,871)
Net Carrying Value	**14,625,722**	**2,908,773**	**16,705,800**	**3,907,299**

37 RISK MANAGEMENT *(continued)*

a. Credit Risk *(continued)*

Collateral management:

Credit risk assessment identifies the primary sources of repayment which are the obligor's normal business cash flows and/or normal personal income. Where credit facilities are secured by collateral, the Group seeks to ensure the enforceability of the facilities.

Acceptable collateral includes deposit marked with lien, mortgage over land and property, movable assets including inventory, securities, investment grade bonds, gold and guarantees. The maximum lending value and the valuation frequencies are documented in the corporate credit policy.

Collaterals are revalued as a general rule as per the policy. However adhoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed.

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use non-cash collateral for its own operations.

Risk gross maximum exposure:

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2010 AED'000	2009 AED'000
Balances with U.A.E Central Bank	1,033,246	1,078,905
Due from banks	68,813	127,229
Due from Group Holding Company, net	12,372,274	1,656,526
Financing receivables	14,625,722	16,705,800
Investments	2,839,960	3,780,070
Other assets	177,810	272,669
Total	**31,117,825**	**23,621,199**
Contingent liabilities	4,146,402	4,011,840
Total credit risk exposure	**35,264,227**	**27,633,039**

37 RISK MANAGEMENT *(continued)*

a. Credit Risk *(continued)*

Credit quality analysis:

The credit quality of financial assets is managed by the Group. The table below shows the credit quality by class of financial assets, based on the Groups credit rating policy.

PORTFOLIO REVIEW

2010	Carrying amount	Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired		
		Low/ Fair risk	Watch list	Re-negotiated terms	< 30 days	30-60 days	61-90 days	> 90 days	Carrying amount	Allowance for impairment	Gross amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Due from banks and Group Holding Company	12,441,087	12,441,087	-	-	-	-	-	-	-	-	-
Financing receivables:											
Retail	4,697,240	4,247,315	-	3,909	270,105	83,638	32,673	-	59,600	326,256	385,856
Corporate	9,928,482	4,716,865	1,283,322	2,654,815	11,532	4,717	30,380	207,076	1,019,775	254,229	1,274,004
Financial investments:											
Unquoted-Other debt securities	823,157	820,786	-	-	-	-	-	-	2,371	8,648	11,019
Other securities	2,016,803	2,007,322	-	-	-	-	-	-	9,481	25,137	34,618

37 RISK MANAGEMENT *(continued)*

a. Credit Risk *(continued)*

Credit quality analysis: *(continued)*

2009	Carrying amount	Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired		
		Low/ Fair risk	Watch list	Re-negotiated terms	< 30 days	30-60 days	61-90 days	> 90 days	Carrying amount	Allowance for impairment	Gross amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Due from banks and Group Holding Company	1,783,755	1,783,755	-	-	-	-	-	-	-	-	-
Financing receivables:											
Retail	4,936,992	4,174,950	-	27,348	369,516	158,097	88,176	-	118,905	214,000	332,905
Corporate	11,768,808	6,740,433	1,644,139	2,649,247	10,775	20,499	15,012	470,440	218,263	131,026	349,289
Financial investments:											
Unquoted-Other debt securities	1,396,220	1,388,307	-	-	-	-	-	-	7,913	3,106	11,019
Other securities	2,383,850	2,361,083	-	-	-	-	-	-	22,767	12,929	35,696

37 RISK MANAGEMENT *(continued)*

a. Credit Risk *(continued)*

Financing with renegotiated terms

Financing with renegotiated terms are loans, the repayment plan of which have been restructured to align with the changed cash flows of the borrower with no other concessions by way of reduction in the amount or profit, but in some instances with improved security. These financing are treated as standard loans and continue to be reported in the renegotiated loans category until satisfactory compliance with the revised terms for a period of twelve months from the date of restructuring. Renegotiated financing are secured by a combination of tangible security and corporate/ personal guarantees.

Watch list

The asset portfolio is reviewed quarterly at a minimum. Potential problem credits are identified in time and transferred to "watch list" category for close monitoring.

Past due but not impaired

Exposures where contractual profit or principal payment are past due for more than 90 days but the Group believes, on individual assessment, that the impairment is not appropriate considering the borrower's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of the borrower's receivables and/or the stage of collection of the amounts owed to the Group.

Definition of impaired financial assets

A counterparty is marked as impaired if:

1. In case of corporate exposures, the Group considers the counterparty unlikely to pay due to one of the following conditions:

    - A material credit obligation has been put on non-accrual status;
    - Distressed restructuring of a credit obligation;
    - Selling of a credit obligation at an economic loss; and
    - The Group or a third party has filed for the counterparty's bankruptcy.

2. In case of retail, if the exposure is past due for more than 90 days, it is considered to be impaired.

Impairment assessment

The asset portfolio is reviewed at least quarterly at a minimum or as often as necessitated. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per the credit policy on risk grades. Impaired assets are classified as such through approvals on a credit memorandum and reported at least on quarterly intervals to the Board sub committees.

Measurement of specific impairment

Corporate banking: The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. The impairment losses are evaluated at each reporting date. Allowances are made in accordance with IFRS where early warning signs of losses are evident. Specific impairment is assessed when a credit exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days.

Consumer banking: Criteria for provisions are based on products, namely, credit cards and other retail loans. All retail loans are classified as non-performing at 90 days and provisions are made in line with the Group's income and loss recognition policies.

37 RISK MANAGEMENT *(continued)*

a. Credit Risk *(continued)*

Measurement of collective impairment

Provisions for collective impairment are made based on the IAS 39 guidelines. Impairments that cannot be identified with an individual loan are identified on a portfolio basis. The Group has adopted the following methodologies for determining the collective portfolio impairment provisions:

Corporate banking: Historical loss rates for different industry sectors are calculated to determine the collective impairment provisions for the corporate portfolios. To ensure that the impact of economic cycles is incorporated, the loss rates are benchmarked against published default histories observed over economic cycles in different markets. Industry specific adjustments are made to reflect the current market conditions. A number of stress scenarios are run to ensure that the reserves are adequate and reflect a realistic level of collective impairment provisions.

Consumer banking: Collective impairment provisions for the retail portfolios are determined based on a flow rates methodology. Flow rates for various retail loan products are monitored over a period of time to determine the average flow rates. The flow rates and average loss rates for various historical windows are considered to determine the appropriate level of collective impairment provisions.

b. Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices, for instance, as a result of fluctuations in profit rates and/or exchange rates, equity and commodity prices. Consistent with the Bank's approach to strict compliance with Islamic Sharia, the Bank does not enter into speculative foreign exchange and currency transactions. The Bank only enters into a limited amount of foreign exchange and currency transactions to hedge its commercial activities.

The Bank's market risk is managed through risk limits set by the ALCO and approved by the Bank's Board of Directors. Risk limits are reviewed by the ALCO on an annual basis. The market risk limits are monitored independently by the Emirates Bank group risk department on a regular basis, and exceptions, if any, are reported to senior management and approved by the ALCO.

i. Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The group is not significantly exposed to any currency risk as it does not hold any open position is foreign currencies.

ii. Profit Rate Risk

Profit rate or pricing risk, comprising market and valuations risk, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the Asset and Liability Committee (ALCO).

The Bank is not significantly exposed to risk in terms of the repricing of its liabilities since primarily in accordance with Islamic Sharia, the Bank does not provide a contractual rate of return to its depositors.

37 RISK MANAGEMENT (continued)

b. Market Risk *(continued)*

iii. 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 2010) due to reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2010			2009		
	% Change in market indices	Effect on net profit AED' 000	Effect on other comprehensive income AED' 000	% Change in market indices	Effect on net profit AED' 000	Effect on other comprehensive income AED' 000
Available-for-sale investment						
Others	10	6,607	-	10	-	12,106
Fair value through Profit and loss						
Dubai financial market	10	1,839	-	10	2,149	-
NASDAQ Dubai	10	2,615	-	10	1,799	-
Others	10	9,884	-	10	11,039	-

c. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or external events. This type of risk includes fraud, unauthorized activities, errors and settlement risk arising from the large number of daily Banking transactions occurring in the normal course of business. There is also a wide variety of business risks such as legal, regulatory, human resources and reputation risks inherent in all business activities.
The Bank has standard policies and procedures for managing each of its divisions, departments and branches so as to minimize loss through a framework which requires all units to identify, assess, monitor and control operational risk. All standard policies and procedures are subject to review and approval by the Board of Directors.

The Group manages operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorization of transactions and regular, systematic reconciliation and monitoring of transactions. This control structure is complemented by independent and periodic reviews by the Bank's internal audit department.

The Bank follows the Emirates Bank group policy in relation to compliance with the Office of Foreign Assets Control (OFAC) regulations which are in line with international practices and guidelines. The Bank maintains a "restricted customer" database which is checked when prospective customers of the Bank are initially assessed. This database is linked to the OFAC list of sanctioned individuals as updated from time to time.

37 RISK MANAGEMENT (continued)

c. Operational Risk *(continued)*

The Group has implemented the following processes to proactively monitor and manage operational risks:

- For the assessment of any operational risk of a new or amended product or process prior to its implementation, the Group established the Control Risk Self Assessment (CRSA) process. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives.

- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analyzing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units, i.e. where these events are encountered. The operation risk management function supports the respective units in the analysis of operational risk events and provides Group-wide reporting on these events.

- IT Security processes ensure confidentiality, integrity and availability of Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Group operational risk function ensures that security processes are integrated with strategic and operational planning processes to secure the organization's mission.

- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy. The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

37 RISK MANAGEMENT *(continued)*

d. Liquidity Risk

Liquidity risk refers to the inability of the Group's to meet its maturing obligations to counterparty. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately.

Liquidity risk management:

To guard against this risk, the Group has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Liquidity is managed by the Treasury department under guidance from the ALCO, and is monitored using short-term cash-flow reports and medium-term maturity mismatch reports. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. They do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

The maturity profile of the Group's assets and liabilities is monitored by management to ensure adequate liquidity is maintained.

Liquidity risk monitoring:

All funded liquidity risk positions are monitored and evaluated by Group risk to identify mismatches of future cash inflows and corresponding maturity of liabilities over the short term and by major currencies.

The Group ALCO reviews the funding capacity, and its sensitivity to any key event, based on the judgment of Group Treasury that is responsible for maintaining diversified funding sources within capital and money markets.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. The Group's approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times. The Group ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis;
- Varied funding programs; and
- Investor diversification.

Liquidity risk mitigation

The ALCO, in conjunction with Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The ALCO, in line with the best practices, recognises that users and providers of liquidity as a resource should be incentivized an equitable and transparent manner. This is achieved through the Funds Transfer Pricing (FTP) system which is aligned to charge/compensate for liquidity of the underlying assets or structural nature of underlying liabilities.

37 RISK MANAGEMENT *(continued)*

d. Liquidity Risk *(continued)*

MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

2010	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS:						
Cash, and balances with U.A.E Central Bank	1,121,466	-	-	-	-	1,121,466
Due from banks	68,813	-	-	-	-	68,813
Due from Group Holding Company, net	11,984,082	388,192	-	-	-	12,372,274
Financing receivables	3,316,868	1,162,959	3,773,436	2,278,074	4,094,384	14,625,721
Investments	48,983	184,428	2,057,087	549,462	-	2,839,960
Other financial assets	75,872	-	-	-	-	75,872
TOTAL ASSETS	**16,616,084**	**1,735,579**	**5,830,523**	**2,827,536**	**4,094,384**	**31,104,106**
LIABILITIES:						
Customers' accounts	(14,413,497)	(5,789,949)	(4,019,419)	-	-	(24,222,865)
Due to banks	(3,712,076)	-	-	-	-	(3,712,076)
Other financial liabilities	(413,572)	-	-	-	-	(413,572)
Zakat payable	(11,704)	-	-	-	-	(11,704)
Investment wakala	-	-	-	(1,081,872)	-	(1,081,872)
TOTAL LIABILITIES	**(18,550,849)**	**(5,789,949)**	**(4,019,419)**	**(1,081,872)**	**-**	**(29,442,089)**
Liquidity (deficit)/surplus	**(1,934,765)**	**(4,054,370)**	**1,811,104**	**1,745,664**	**4,094,384**	**1,662,017**
Cumulative liquidity (deficit)/surplus	**(1,934,765)**	**(5,989,135)**	**(4,178,031)**	**(2,432,367)**	**1,662,017**	

The Group is exposed to financial commitments disclosed in note 21 to the financial statements.

37 RISK MANAGEMENT *(continued)*

d. Liquidity Risk *(continued)*

MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

2009	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS:						
Cash, and balances with U.A.E Central Bank	1,161,562	-	-	-	-	1,161,562
Due from banks	127,229	-	-	-	-	127,229
Due from Group Holding Company, net	514,834	1,141,692	-	-	-	1,656,526
Financing receivables	3,282,890	2,035,851	4,431,292	2,898,606	4,057,161	16,705,800
Investments	126,381	556,750	2,457,352	241,318	398,269	3,780,070
Other financial assets	179,464	-	-	-	-	179,464
TOTAL ASSETS	**5,392,360**	**3,734,293**	**6,888,644**	**3,139,924**	**4,455,430**	**23,610,651**
LIABILITIES:						
Customers' accounts	(7,972,455)	(6,002,912)	(4,886,401)	(556,319)	-	(19,418,087)
Due to banks	(1,207,526)	-	-	-	-	(1,207,526)
Other financial liabilities	(374,578)	-	-	-	-	(374,578)
Zakat payable	(13,121)	-	-	-	-	(13,121)
Investment wakala	-	-	-	-	(1,081,872)	(1,081,872)
TOTAL LIABILITIES	**(9,567,680)**	**(6,002,912)**	**(4,886,401)**	**(556,319)**	**(1,081,872)**	**(22,095,184)**
Liquidity (deficit)/surplus	**(4,175,320)**	**(2,268,619)**	**2,002,243**	**2,583,605**	**3,373,558**	**1,515,467**
Cumulative liquidity (deficit)/surplus	**(4,175,320)**	**(6,443,939)**	**(4,441,696)**	**(1,858,091)**	**1,515,467**	

The Group is exposed to financial commitments disclosed in note 21 to the financial statements.

37 RISK MANAGEMENT *(continued)*

e. Legal Risk

The Bank has full-time legal advisor and is actively supported at Group level Legal department who deal, with both routine and more complex legal cases. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate.

f. Capital Adequacy Ratio

The Bank's capital adequacy ratio is regularly monitored by ALCO and managed by the Group risk, following table shows the details of calculating capital adequacy ratio as at 31 December 2010 and 31 December 2009:

	2010	2009
	AED'000	AED'000
TIER I CAPITAL		
Share capital	2,430,422	2,314,688
Statutory reserve	206,865	200,738
General reserve	112,644	106,517
Retained earnings	86,804	165,234
Total tier I capital	**2,836,735**	**2,787,177**
TIER II CAPITAL		
Investment Wakala (Subordinated Term Loan)	1,081,872	1,081,872
Asset revaluation reserves	-	(6,679)
Total tier II capital	**1,081,872**	**1,075,193**
CAPITAL BASE	**3,918,607**	**3,862,370**
RISK WEIGHTED ASSETS		
Credit risk, on-balance sheet items	20,284,321	20,857,702
Credit risk, off-balance sheet items	1,490,648	1,675,837
	21,774,969	**22,533,539**
CAPITAL ADEQUACY RATIO (BASEL 1)	**18.00%**	**17.14%**

38 FAIR VALUE

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Difference can therefore arise between book value under the historical cost method and fair value.
The fair value of the Bank's assets and liabilities is not materially different from the carrying value at 31 December 2010 for the reasons set out below:

a. Due from banks

Due from Banks includes current accounts with these Banks.

b. Due from Group Holding Company

Due from Group Holding Company comprises the Bank's Murabaha, deposit exchange, Wakala and other balances. Such Murabaha contracts are short term and priced with reference to the market rates at the contractual date. The Murabaha is expected to be realized at maturity.

c. Financing receivables

Financing receivables are net of deferred income and allowances for impairment.

Ijarah facilities are given at a variable rate determined, generally, with reference to the market rates besides the usual parameters of tenor and risk evaluation.

The average profit rate on financing receivables at the year end is in line with the rate charged for such financing in the local Banking market.

d. Investments securities

Investments securities comprise quoted and unquoted equity securities. The quoted equity securities are valued at fair value through statement of income, and the unquoted securities are stated at cost less any provision for impairment. The assessment of the fair value of unquoted investments cannot be determined in an accurate measurement.

e. Investment properties

Investment properties are stated at cost. The fair value of investment properties is disclosed in note 20.

f. Customers' accounts

A significant portion of customers' accounts comprise investment accounts with an original maturity up to two years. A significant portion of these accounts have been maintained with the Bank for a number of years on a roll over basis.

Customers' accounts primarily comprising profit bearing saving and investment and wakala accounts, paid on quarterly basis, and non-profit bearing current accounts, repayable on demand.

g. Due to Banks

Due to Banks includes non-profit bearing current accounts payable on demand.

h. Other assets and liabilities

Other assets and liabilities primarily comprise assets and liabilities which are primarily short term in nature.

Carrying and fair value of financial assets and liabilities

38 FAIR VALUE *(continued)*

	2010		2009	
	AED'000		AED'000	
Financial Assets	**Carrying value**	**Fair Value**	**Carrying Value**	**Fair Value**
Due from banks	68,813	68,813	127,229	127,229
Due from Group Holding Company, net	12,372,274	12,372,274	1,656,526	1,656,526
Financing receivables	14,625,722	14,625,722	16,705,800	16,705,800
Investments	2,839,960	2,839,960	3,780,070	3,780,070
Financial Liabilities				
Customers' accounts	24,222,865	24,222,865	19,418,087	19,418,087
Due to banks	3,712,076	3,712,076	1,207,526	1,207,526
Investment wakala	1,081,872	1,081,872	1,081,872	1,081,872

39 FINANCIAL INSTRUMENTS

	2010	2010	2010	2010	2010
	AED'000	AED'000	AED'000	AED'000	AED'000
	Designated at fair value	Available for sale	Held to Maturity	Amortized Cost	Total
Financial Assets					
Due from banks	-	-	-	68,813	68,813
Due from Group Holding Company, net	-	-	-	12,372,274	12,372,274
Financing receivables	-	-	-	14,625,722	14,625,722
Investments	636,215	1,427,035	776,710	-	2,839,960
Financial Liabilities					
Customers' accounts	-	-	-	24,222,865	24,222,865
Due to banks	-	-	-	3,712,076	3,712,076
Investment wakala	-	-	-	1,081,872	1,081,872

	2009	2009	2009	2009	2009
	AED'000	AED'000	AED'000	AED'000	AED'000
	Designated at fair value	Available for sale	Held to Maturity	Amortized Cost	Total
Financial Assets					
Due from banks	-	-	-	127,229	127,229
Due from Group Holding Company, net	-	-	-	1,656,526	1,656,526
Financing receivables	-	-	-	16,705,800	16,705,800
Investments	671,139	1,764,700	1,344,231	-	3,780,070
Financial Liabilities					
Customers' accounts	-	-	-	19,418,087	19,418,087
Due to banks	-	-	-	1,207,526	1,207,526
Investment wakala	-	-	-	1,081,872	1,081,872

40 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

2010	GCC AED'000	Other Middle East AED'000	Europe AED'000	North America AED'000	Asia AED'000	Others AED'000	Total AED'000
ASSETS:							
Cash, and balances with U.A.E Central Bank	1,121,466	-	-	-	-	-	1,121,466
Due from banks	5,569	-	60,129	-	803	2,312	68,813
Due from Group Holding Company, net	12,372,274	-	-	-	-	-	12,372,274
Financing receivables	14,612,500	-	3,443	-	-	9,779	14,625,722
Investments	2,095,321	135,998	5,137	-	603,504	-	2,839,960
Investment properties	849,809	-	-	-	-	-	849,809
Investment properties under development	468,109	-	-	-	-	-	468,109
Prepayments and other assets	295,857	-	-	-	-	-	295,857
Fixed Assets	104,505	-	-	-	-	-	104,505
TOTAL ASSETS	**31,925,410**	**135,998**	**68,709**	**-**	**604,307**	**12,091**	**32,746,515**
LIABILITIES:							
Customers' accounts	23,887,453	5,799	146,242	26,640	38,282	118,449	24,222,865
Due to banks	3,710,382	-	-	7	-	1,687	3,712,076
Other liabilities	790,822	-	-	-	-	-	790,822
Zakat payable	11,704	-	-	-	-	-	11,704
Investment wakala	1,081,872	-	-	-	-	-	1,081,872
Shareholders' Equity	2,836,735	-	-	-	-	-	2,836,735
Non-Controlling Interest	90,441	-	-	-	-	-	90,441
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**32,409,409**	**5,799**	**146,242**	**26,647**	**38,282**	**120,136**	**32,746,515**

40 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES *(continued)*

2009	GCC AED'000	Other Middle East AED'000	Europe AED'000	North America AED'000	Asia AED'000	Others AED'000	Total AED'000
ASSETS:							
Cash, and balances with U.A.E Central Bank	1,161,562	-	-	-	-	-	1,161,562
Due from banks	3,325	376	8,810	112,492	686	1,540	127,229
Due from Group Holding Company, net	1,656,526	-	-	-	-	-	1,656,526
Financing receivables	16,683,328	489	3,443	-	-	18,540	16,705,800
Investments	2,989,691	168,707	18,176	-	603,496		3,780,070
Investment properties	458,796	-	-	-	-	-	458,796
Investment properties under development	1,004,491	-	-	-	-	-	1,004,491
Prepayments and other assets	326,568	681	-	-	-	-	327,249
Fixed Assets	67,916	-	-	-	-	-	67,916
TOTAL ASSETS	**24,352,203**	**170,253**	**30,429**	**112,492**	**604,182**	**20,080**	**25,289,639**
LIABILITIES:							
Customers' accounts	19,071,869	76,765	76,295	33,246	134,671	25,241	19,418,087
Due to banks	1,207,522	-	-	4	-	-	1,207,526
Other liabilities	695,491	681	-	-	-	-	696,172
Zakat payable	13,121	-	-	-	-	-	13,121
Investment wakala	1,081,872	-	-	-	-	-	1,081,872
Shareholders' Equity	2,780,498	-	-	-	-	-	2,780,498
Non-Controlling Interest	92,363	-	-	-	-	-	92,363
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**24,942,736**	**77,446**	**76,295**	**33,250**	**134,671**	**25,241**	**25,289,639**

41 COMPARATIVE FIGURES

Certain prior year balances have been reclassified to conform to the current year.