

Emirates Investment Bank P.J.S.C.

FINANCIAL STATEMENTS

31 DECEMBER 2011

REPORT OF THE BOARD OF DIRECTORS
For the year ended 31 December 2011

The Directors are pleased to place before the shareholders of Emirates Investment Bank pjsc ("Bank") the Annual Report for the year ended 31 December 2011.

We have been over the past few years repositioning the Bank as a Dubai-based private and investment banking boutique focused on high net worth individuals and their businesses, as well as institutional clients. During 2011, we continued to execute on this strategy while simultaneously building the infrastructure required for growth. Various policies, guidelines, processes and systems have been adopted to give us more confidence in our ability to expand our business over the coming years.

We closed the year 2011 with an annual net profit of AED 22.3 million (AED 20.3 million in 2010) an increase of 10% over the previous year while maintaining a healthy Capital Adequacy Ratio at 25.51% (Tier I Adequacy Ratio of 24.81%), well exceeding the UAE Central Bank and Basel II requirements. Over this period, customer deposits grew by 50%, reaching AED 848 million, while total assets reached AED 1.46 billion, an increase of 38% over the previous year.

The profit this year is proposed to be appropriated as under:

	AED
- Transfer to legal reserve in accordance with the requirements of Article 58(1) of the Articles of association of the Bank	2,228,635
- Transfer to special reserve in accordance with the requirements of Article 58(2) of the Articles of association of the Bank	2,228,635
- Cash dividend (10%) of Paid-up Capital	4,943,130
- Scrip dividend (11.27%) of Paid-up Capital	5,568,700

As we continue our journey to build a leading private and investment banking boutique, we extend our gratitude to our clients for their support and to our staff for their dedication and hard work.

Board of Directors
08th February 2012
Dubai, United Arab Emirates



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INVESTMENT BANK P.J.S.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Emirates Investment Bank P.J.S.C. (the "Bank"), which comprise the statement of financial position as at 31 December 2011 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and applicable provisions of the articles of association of the Bank, the UAE Commercial Companies Law of 1984 (as amended) and Federal Law No.10 of 1980 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
EMIRATES INVESTMENT BANK P.J.S.C. (continued)**

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), Federal Law No.10 of 1980 and the articles of association of the Bank; proper books of account have been kept by the Bank and the contents of the Directors' report relating to these financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), Federal Law No. 10 of 1980 or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

A handwritten signature in blue ink that reads 'Ernst & Young' in a cursive script.

Signed by:

Joseph A Murphy
Partner
Registration No. 492

8 February 2012

Dubai, United Arab Emirates

INCOME STATEMENT

Year ended 31 December 2011

	<i>Notes</i>	<i>2011 AED'000</i>	<i>2010 AED'000</i>
Interest income		4,147	2,662
Net income from investments	4	81,888	62,364
		86,035	65,026
Interest expense		(30,865)	(23,227)
NET INTEREST INCOME AND NET INCOME FROM INVESTMENTS		55,170	41,799
Other income	5	9,659	3,450
Exchange (loss) / gain - net		(195)	10
OPERATING INCOME		64,634	45,259
General and administrative expenses	6	(24,415)	(14,962)
Impairment loss on available for sale investments		(17,624)	(8,943)
Impairment loss on loans and advances		(309)	(1,006)
OPERATING EXPENSES		(42,348)	(24,911)
NET PROFIT FOR THE YEAR		22,286	20,348
BASIC AND DILUTED EARNINGS PER SHARE	7	AED 45.09	AED 42.14

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
NET PROFIT FOR THE YEAR	22,286	20,348
Other comprehensive income		
Net unrealised gain on available for sale investments	533	56,759
Net realised gain transferred to income statement on disposal of available for sale investments	(25,777)	(20,209)
Impairment of available for sale investments recognised in income statement	17,624	8,943
Other comprehensive income for the year	(7,620)	45,493
Total comprehensive income for the year	14,666	65,841

Emirates Investment Bank P.J.S.C.

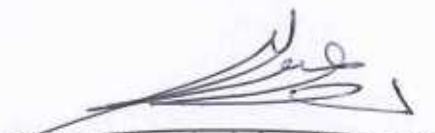
STATEMENT OF FINANCIAL POSITION

As 31 December 2011

	Notes	2011 AED'000	2010 AED'000
ASSETS			
Cash and balances with UAE Central Bank	8	30,449	6,125
Due from banks	9	220,386	118,425
Loans and advances, net	10	8,995	11,751
Investments	11	1,175,486	906,453
Property and equipment	12	1,167	1,606
Other assets	13	21,451	11,419
TOTAL ASSETS		1,457,934	1,055,779
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	14	385,298	288,901
Customer deposits		848,452	565,330
Other liabilities	15	23,051	10,587
TOTAL LIABILITIES		1,256,801	864,818
EQUITY			
Share capital	16	49,432	44,938
Legal reserve	16	24,697	22,469
Special reserve	16	18,105	15,877
Cumulative changes in fair values		11,987	19,607
Retained earnings		96,912	79,082
Proposed cash dividends		-	4,494
Proposed scrip dividends		-	4,494
TOTAL EQUITY		201,133	190,961
TOTAL LIABILITIES AND EQUITY		1,457,934	1,055,779

The financial statements were approved by the Board of Directors on 8th February 2012 and signed on its behalf by:


 Omar Abdulla Al Futtaim
 (Chairman)


 Buti Obaid Al Mulla
 (Director)

STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
OPERATING ACTIVITIES		
Net profit for the year	22,286	20,348
Adjustments for:		
Depreciation	870	797
Loss on sale of property and equipment	3	-
Impairment loss on investments	17,624	8,943
Impairment loss on loans and advances	309	1,006
Changes in due from banks with original maturities of over three months	(16,000)	-
Changes in due to banks with original maturities of over three months	-	120,000
Change in loans and advances	2,447	(5,499)
Change in other assets	(10,032)	(3,352)
Change in investments (net)	(294,277)	(335,938)
Change in customers' deposits	283,122	70,082
Change in other liabilities	12,464	(541)
Net cash generated from / (used in) operations	<u>18,816</u>	<u>(124,154)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(434)	(299)
Net cash used in investing activities	<u>(434)</u>	<u>(299)</u>
FINANCING ACTIVITIES		
Dividend Paid	(4,494)	-
Net cash used in financing activities	<u>(4,494)</u>	<u>-</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	13,888	(124,453)
Cash and cash equivalents at 1 January	<u>(83,351)</u>	<u>41,102</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>(69,463)</u>	<u>(83,351)</u>
Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less:		
Cash and balances with Central Bank	30,449	6,125
Due from banks	165,386	79,425
Due to banks	(265,298)	(168,901)
	<u>(69,463)</u>	<u>(83,351)</u>
Operational cash flows from interest and dividend		
Interest paid	20,161	22,650
Interest received (including from investments)	48,993	34,191
Dividend received	12,154	7,889

Emirates Investment Bank P.J.S.C.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Cumulative changes in fair values AED '000	Retained earnings AED '000	Proposed dividends AED '000	Total AED '000
At 1 January 2011	44,938	22,469	15,877	19,607	79,082	8,988	190,961
Net profit for the year	-	-	-	-	22,286	-	22,286
Other comprehensive income for the year	-	-	-	(7,620)	-	-	(7,620)
Total comprehensive income for the year	-	-	-	(7,620)	22,286	-	14,666
Transfers	-	2,228	2,228	-	(4,456)	-	-
Cash dividend – relating to 2010 (note 17)	-	-	-	-	-	(4,494)	(4,494)
Scrip dividend – relating to 2010 (note 17)	4,494	-	-	-	-	(4,494)	-
Balance at 31 December 2011	49,432	24,697	18,105	11,987	96,912	-	201,133

The attached notes 1 to 24 form part of these financial statements.

Emirates Investment Bank P.J.S.C.

STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2011

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Cumulative changes in fair values AED '000	Retained earnings AED '000	Proposed dividends AED '000	Total AED '000
At 1 January 2010	44,938	21,539	13,842	(25,886)	70,202	-	124,635
Net profit for the year	-	-	-	-	20,348	-	20,348
Other comprehensive income for the year	-	-	-	45,493	-	-	45,493
Total comprehensive income for the year	-	-	-	45,493	20,348	-	65,841
Transfers	-	930	2,035	-	(2,965)	-	-
Reversal of directors' fees	-	-	-	-	485	-	485
Proposed cash dividend	-	-	-	-	(4,494)	4,494	-
Proposed scrip dividend	-	-	-	-	(4,494)	4,494	-
Balance at 31 December 2010	44,938	22,469	15,877	19,607	79,082	8,988	190,961

In accordance with the Ministry of Economy interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity. During the year 2011, there were no directors' fees charged in the financial statements.

The attached notes 1 to 24 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

1 INCORPORATION AND ACTIVITIES

Emirates Investment Bank PJSC (the 'Bank') was incorporated on 17 February 1976 in Dubai by a decree of HH The Ruler of Dubai as Arab Emirates Investment Bank Limited. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) of 1984 (as amended) as a Public Joint Stock Company. The Bank is engaged in the business of private banking, investment banking and investment portfolio management. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 50.26% of the shares in the Bank.

During the year 2010, the Bank had changed its legal name from Arab Emirates Investment Bank P.J.S.C. to Emirates Investment Bank P.J.S.C.

2 BASIS OF PREPARATION

Accounting convention

The financial statements are prepared under the historical cost convention except for the measurement of derivatives and available for sale investments at fair value.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank and all values are rounded to the nearest thousand (AED '000) except where otherwise stated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates law.

New accounting Standards and Interpretations:

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

IAS 24 Related Party Disclosures (amendment) effective 1 January 2011

IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011

Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Bank because the Bank does not have these type of instruments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

2 BASIS OF PREPARATION (continued)

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Bank is not subject to minimum funding requirements in Euroland, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Bank.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing of standards and interpretations issued are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendments become effective for annual periods beginning on or after 1 January 2013 and are not expected to have any material impact on the financial position or performance of the bank.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Bank does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

2 BASIS OF PREPARATION (continued)

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary

Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 *Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Significant management judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, assumptions and judgements that affect the reporting amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Impairment losses on loans and advances

The Bank reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

2 BASIS OF PREPARATION (continued)

Significant management judgements and estimates (continued)

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification of investments:

Management decides upon acquisition of an investment whether it should be classified as investments carried at fair value through profit or loss or available for sale.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

All other investments are classified as available for sale.

The above classification requires management's judgement.

Impairment of investments

The Bank treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. The Bank evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans and advances

The Bank reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Estimates for impairment losses on loans and advances take into account the probability of default and probable losses in the event of default, the value of the underlying security and realisation costs.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transaction;
- current fair value of another investment that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models

The determination of cash flows and discount factors for unquoted equity investments requires significant estimations. The Bank calibrates the valuation techniques periodically and tests them for validity using either process from observable current market transactions in the same investment or from other available observable market data.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

For all financial instruments measured at amortised cost and other interest bearing financial instruments including financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Other fee income and expenses are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows comprise balances with maturities of three months or less from the date of acquisition including cash and balances with UAE Central Bank, due from banks and due to banks.

Due from banks

Due from banks are stated at amortised cost using the effective interest method less allowance for impairment, if any.

Loans and advances

Loans and advances are stated at amortised cost net of interest suspended, provisions for impairment and any amounts written off. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement and the losses arising on impairment of such loans and advances are also recognised in the income statement.

Investments

Investments are classified as follows:

- Investments at fair value through profit or loss;
- Available for sale

All securities are initially recognised at fair value plus, except for investments at fair value through profit or loss and investment in gold bullion, transaction costs that are directly attributable to the acquisition.

Investments at Fair Value through Profit or Loss ("FVTPL")

This category has two sub-categories:

- Investment securities held for trading, and;
- Those designated at fair value through profit or loss at inception. Investments at fair value through profit or loss.

An investment security is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is an evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Investment securities are designated as at FVTPL in the following circumstances:

- Doing so eliminates or significantly reduces measurement or recognition inconsistencies that would arise from measuring assets or liabilities or recognising the gains and losses on them on different basis; or
- They are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Available for sale

Available for sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances.

Initial recognition

All investment securities are initially recognised at fair value plus, except for investments at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of such investment.

Subsequent measurement

After initial recognition, investments at fair value through profit or loss are remeasured at fair value. Fair value changes in respect of these investments are taken to the income statement.

After initial recognition, available for sale investments are remeasured at fair value except unquoted equity investments whose fair value cannot be reliably determined in which case they are measured at cost less accumulated impairment. Fair value changes are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity is included in the income statement for the year.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the Bank's rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

Fair values

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. Bid prices are used for assets and offer prices are used for liabilities.

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

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm's length market transactions, or is based on expected discounted cash flows or derived using other accepted valuation models.

The fair value of forward foreign exchange contracts is calculated by reference to forward exchange rates for contracts with similar maturities.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

Furniture and equipment	over 4 years
Motor vehicles	over 4 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Deposits

All money market and customer deposits are carried at cost less amounts repaid.

Employees' end of service benefits

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

The Bank provides end of service benefits to its other expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement in 'Other income' on a straight line basis over the life of the guarantee.

Leases

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

Derivatives

Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position.

As the derivatives entered into do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the year.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is received from or delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not recognised in the statement of financial position.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported on the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross on the statement of financial position.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at middle market rates of exchange ruling at the statement of financial position date. Any resultant gains and losses are taken to the income statement.

Segment reporting

The Bank's reporting is based on the following operating segments: Private banking & Investment banking and Proprietary Investments Portfolio.

4 NET INCOME FROM INVESTMENTS

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Interest income on investments in debt instruments	44,304	34,799
Gain on sale of available for sale investments - net	25,777	20,209
Dividend income	12,154	7,796
Portfolio management fee paid to other financial institutions	(347)	(440)
	<u>81,888</u>	<u>62,364</u>

5 OTHER INCOME

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Fee from advisory services	6,661	212
Portfolio management fees, commission and other income	2,998	3,238
	<u>9,659</u>	<u>3,450</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

6 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Staff costs	14,848	10,161
Depreciation (note 12)	870	797
Rental costs – operating leases	1,792	1,682
Consultancy charges	3,837	52
Others	3,068	2,270
	<u>24,415</u>	<u>14,962</u>

7 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year, net of director fees, of AED 22,286 thousand (2010: AED 20,833 thousand) by the weighted average number of shares outstanding during the year of 494,320 of AED 100 each (2010: 494,320 shares of AED 100 each).

The earnings per share of AED 42.14 as reported for the year ended 31 December 2010 has been adjusted for the effect of the shares issued in 2011 as a result of the stock dividend.

The figure for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

8 CASH AND BALANCES WITH UAE CENTRAL BANK

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Cash in hand	161	25
Balances with UAE Central Bank:		
Current account	19,200	1,522
Reserve requirements	11,088	4,578
	<u>30,449</u>	<u>6,125</u>

The reserve requirements are kept with the UAE Central Bank in AED and USD and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with UAE Central Bank directives and is based on the balance of outstanding customer deposits.

9 DUE FROM BANKS

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Domestic	66,046	90,443
Regional	126,181	959
International	28,159	27,023
	<u>220,386</u>	<u>118,425</u>

Included in due from banks is a term deposit of AED 55,000 thousand (2010: AED 90,000 thousand) with a counter party in UAE. This deposit has been liened to the extent of AED 55,000 thousand (2010: AED 39,000 thousand) against facilities granted by the counter party to the Bank.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

10 LOANS AND ADVANCES, NET

	2011 AED'000	2010 AED'000
Commercial and business:		
Overdrafts / loans (secured)	9,647	10,331
Overdrafts / loans (unsecured)	663	2,426
	<u>10,310</u>	<u>12,757</u>
Less: collective impairment provision	(1,315)	(1,006)
	<u>8,995</u>	<u>11,751</u>

At 31 December 2011, there were no loans individually determined to be impaired and accordingly, no specific provisions were considered necessary in respect of any of the loans and advances provided by the Bank (2010: Nil).

Based on the assessment of health of the overall loans and advances portfolio, and also in compliance with the directive of the Central Bank of UAE, the Bank has determined a collective impairment provision of AED 1,315 thousand (2010: AED 1,006 thousand) against risk of default incurred but not yet identified.

11 INVESTMENTS

	2011 AED'000	2010 AED'000
Available for sale investments		
Debt		
Quoted	741,301	731,466
Equity		
Quoted	366,943	129,580
Unquoted	34,088	37,503
	<u>401,031</u>	<u>167,083</u>
Total available for sale investments	<u>1,142,332</u>	<u>898,549</u>
Investment in bullion	33,154	7,904
Total investments	<u>1,175,486</u>	<u>906,453</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

11 INVESTMENTS (continued)

Investment in bullion represents an investment in physical gold which is being carried at cost. The Bank has assessed this for impairment and concluded that no provision is required.

	2011 AED'000	2010 AED'000
Equity investments:		
Domestic	127,282	123,180
Regional	15,588	8,562
International	258,161	35,341
	<u>401,031</u>	<u>167,083</u>
Debt investments:		
Domestic	704,209	688,494
Regional	13,624	19,651
International	23,468	23,321
	<u>741,301</u>	<u>731,466</u>
Investment in bullion	<u>33,154</u>	<u>7,904</u>
	<u><u>1,175,486</u></u>	<u><u>906,453</u></u>

Part of the proprietary debt investments portfolio of the Bank having carrying value of AED 433 million (2010: AED 294 million) is pledged with banks against credit facility and repurchase agreements totalling to AED 228 million (2010: AED 135.9 million).

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

As at 31 December 2011, the Bank held the following investments measured as follows:

	31 December 2011 AED'000	<u>Investments carried at fair value</u>			Investments carried at cost AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
Equity investments:					
Domestic	127,282	46,940	73,338	7,004	-
Regional	15,588	8,553	7,035	-	-
International	258,161	231,000	25,416	-	1,745
Debt investments:					
Domestic	704,209	704,209	-	-	-
Regional	13,624	13,624	-	-	-
International	23,468	23,468	-	-	-
	<u>1,142,332</u>	<u>1,027,794</u>	<u>105,789</u>	<u>7,004</u>	<u>1,745</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

11 INVESTMENTS (continued)

	31 December 2010 AED'000	Investments carried at fair value			Investments carried at cost AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
Equity investments:					
Domestic	123,180	65,720	51,873	1,508	4,079
Regional	8,562	23	7,018	-	1,521
International	35,341	4,072	25,479	-	5,790
Debt investments:					
Domestic	688,494	688,494	-	-	-
Regional	19,651	19,651	-	-	-
International	23,321	23,321	-	-	-
	<u>898,549</u>	<u>801,281</u>	<u>84,370</u>	<u>1,508</u>	<u>11,390</u>

During the current year, investments amounting to AED 31,063 thousand (2010: AED 43,092 thousand) were transferred from Level 1 to Level 2 fair value measurements, AED 11,505 thousand (2010: AED 11,286 thousand) was transferred from Level 2 to Level 1 fair value measurements, while an amount of AED 7,512 thousand has been transferred from carried at cost to Level 2 (AED 1,755 thousand) & Level 3 (AED 5,758 thousand) respectively.

The transfers from Level 1 to Level 2 were made as during the year there was no active market for certain securities while transfers from Level 2 to Level 1 were made as the market in respect of these securities was considered to be active again during the year. The transfer from the investments previously being carried at cost to fair value were made as fair value measurement data was available for these investments.

The following table shows a reconciliation of the opening and closing amounts of level 3 investments recorded at fair value:

	2011 AED'000	2010 AED'000
At 1 January	1,508	1,445
Total net unrealised gain recorded in equity	-	63
Impairment loss on Level 3 investments	(262)	-
Transfer from Investments carried at cost	5,758	-
At 31 December	<u>7,004</u>	<u>1,508</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

12 PROPERTY AND EQUIPMENT

	<i>Furniture and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2011	3,741	113	3,854
Additions during the year	434	-	434
Disposals during the year	(325)	-	(325)
At 31 December 2011	<u>3,850</u>	<u>113</u>	<u>3,963</u>
Accumulated depreciation:			
At 1 January 2011	2,135	113	2,248
Charge for the year	870	-	870
Relating to Disposals	(322)	-	(322)
At 31 December 2011	<u>2,683</u>	<u>113</u>	<u>2,796</u>
Net carrying values:			
At 31 December 2011	<u>1,167</u>	<u>-</u>	<u>1,167</u>

	<i>Furniture and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2010	3,442	113	3,555
Additions during the year	299	-	299
At 31 December 2010	<u>3,741</u>	<u>113</u>	<u>3,854</u>
Accumulated depreciation:			
At 1 January 2010	1,338	113	1,451
Charge for the year	797	-	797
At 31 December 2010	<u>2,135</u>	<u>113</u>	<u>2,248</u>
Net carrying values:			
At 31 December 2010	<u>1,606</u>	<u>-</u>	<u>1,606</u>

13 OTHER ASSETS

	<i>2011 AED'000</i>	<i>2010 AED'000</i>
Interest receivable	8,258	8,798
Other receivables and prepayments	13,193	2,621
	<u>21,451</u>	<u>11,419</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

14 DUE TO BANKS

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Term placements	157,000	153,000
Overdraft facility	125,059	135,901
Repurchase agreements	103,239	-
	<u>385,298</u>	<u>288,901</u>

The Bank has borrowed an amount of AED 103 million under repurchase agreements, whereby the Bank's investments in certain bonds with a carrying value of AED 137 million as at 31 December 2011 are pledged under these agreements.

15 OTHER LIABILITIES

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Interest payable	15,710	5,005
Employees' end of service benefits	890	891
Others	6,451	4,691
	<u>23,051</u>	<u>10,587</u>

In accordance with the UAE Labour Law, the Bank provides for end of service benefit for its expatriate employees. Movements in the liability recognised on the statement of financial position in respect of end of service benefits are as follows:

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Liability as at 1 January	891	610
Expense recognised in the income statement	416	379
Amount paid during the year	(417)	(98)
	<u>890</u>	<u>891</u>
Liability as at 31 December	<u>890</u>	<u>891</u>

16 SHARE CAPITAL AND RESERVES**a) Share capital**

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2010: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 494,320 ordinary shares of AED 100 each (2010: 449,376 ordinary shares of AED 100 each). The increase in share capital represents issue of new shares following scrip dividend distributed by the Bank during the current year.

b) Legal reserve

In accordance with the Commercial Companies Law Number 8 of 1984 (as amended) and the Bank's Articles of Association, 10% of the net profit for the year has been transferred to legal reserve till the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

c) Special reserve

As required under Article 82 of Union Law No. 10 of 1980 and the Bank's Articles of Association, 10% of the net profit for the year has been transferred to a special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

17 DIVIDENDS PAID AND PROPOSED

At the Annual General Meeting of the Bank, held on 28 April 2011, the shareholders approved a cash dividend and a scrip dividend both at 10% of the paid up capital respectively amounting to AED 4,494 thousand each, which was paid in the current year.

Subsequent to the date of the statement of financial position, on 8 February 2012 the Board of Directors proposed a cash dividend of 10% amounting to AED 4,943 thousand and a scrip dividend of 11.27% amounting to AED 5,569 thousand which is subject to shareholders' approval in the annual general meeting.

18 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments and contingent liabilities

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

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers, contingent upon the failure of the customers to perform under the terms of the contract.

The Bank has the following credit related commitments:

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Guarantees	88,564	151,765
Irrevocable un-drawn loan commitments	-	120,000

Other commitments:

The Bank has no further commitments (2010: AED 1,977 thousand) on account of investments made in securities and limited partnership funds.

19 RELATED PARTY TRANSACTIONS

The Bank enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

The significant balances outstanding at 31 December in respect of related parties included in the financial statements are as follows:

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	3,620	1,837
Customers' deposits	455,421	223,581
IT related assets	-	45
Commitments and contingencies	66,769	126,919

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

19 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the financial statements are as follows:

	2011 AED'000	2010 AED'000
<i>Directors, their related parties and key management personnel:</i>		
Interest income	91	20
Interest expense	11,413	8,579
Commission and fees	2,007	1,872
Rental costs – operating leases	1,555	1,445
Insurance expense	414	306
IT related cost	105	244

Compensation of key management personnel:

	2011 AED'000	2010 AED'000
Salaries and other benefits	4,348	5,171

20 RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to Credit risk, Liquidity risk and Market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The Board of Directors has the responsibility to monitor the overall risk process within the Bank. They also have the overall responsibility for the development of the related strategy and implementing principles, framework, process and limits. It is responsible for the fraud and other risk related matters and manages and monitors relevant risk decisions.

Board Audit & Risk Committee

Board Audit & Risk Committee (BARC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancement of the Bank's risk management framework to best practice standards, including effective internal control structures, monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc) ensuring the independence of the Internal Audit function and compliance with the regulatory requirements.

Bank Treasury

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Internal Audit

Risk management processes throughout the Bank are subject to internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the BARC.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the BARC and management committees. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Periodic briefing is given to the relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Bank also constantly monitor their portfolio and diversify it in order to mitigate risk in relation to concentration of exposure towards a particular business or geographical segment.

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has an internal credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Credit risk (continued)

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

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

	<i>Notes</i>	<i>Gross maximum exposure 2011 AED'000</i>	<i>Gross maximum exposure 2010 AED'000</i>
Balances with UAE Central Bank (excluding cash on hand)	8	30,288	6,100
Due from banks	9	220,386	118,425
Loans and advances	10	10,310	12,757
Investments in debt instruments	11	741,301	731,466
Other assets		21,043	10,989
		1,023,328	879,737
Guarantees	18	88,564	151,765
		88,564	151,765
Total credit risk exposure		1,111,892	1,031,502

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2011 was AED 125,800 thousand (2010: AED 90,000 thousand) before taking account of collateral or other credit enhancements and which is fully covered (2010: AED 90,000 thousand) by counter placement with the Bank. This analysis does not include investment in debt instruments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Credit risk (continued)

The Bank's financial instruments (excluding cash in hand and investments in equity securities), before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2011			2010		
	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities and commitments</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities and commitments</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
United Arab Emirates	817,539	901,659	88,564	807,772	541,336	151,765
North America	27,655	237	-	6,890	239	-
Latin America	5,575	16	-	2,484	-	-
Europe	15,428	134,047	-	17,094	138,888	-
Asia Pacific	11,920	42,459	-	14,314	42,598	-
GCC & other ME	145,211	177,493	-	31,183	140,866	-
	1,023,328	1,255,911	88,564	879,737	863,927	151,765

An industry sector analysis of the Bank's financial assets (excluding cash in hand and investments in equity securities) including contingent liabilities, before taking into account collateral held or other credit enhancements, is as follows:

	2011	2010
	<i>AED'000</i>	<i>AED'000</i>
Commercial and business	285,882	366,970
Banks and financial institutions	302,745	149,792
Government entities	523,258	514,712
Others	7	28
	1,111,892	1,031,502

Collateral and other credit enhancements

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

	<i>Neither past due nor impaired</i>			
	<i>High grade 2011 AED'000</i>	<i>Standard grade 2011 AED'000</i>	<i>Sub- standard grade 2011 AED'000</i>	<i>Total 2011 AED'000</i>
Due from banks	220,386	-	-	220,386
Loans and advances	5,324	4,986	-	10,310
Investments in debt instruments	634,367	3,555	103,379	741,301
	<u>860,077</u>	<u>8,541</u>	<u>103,379</u>	<u>971,997</u>

	<i>Neither past due nor impaired</i>			
	<i>High grade 2010 AED'000</i>	<i>Standard grade 2010 AED'000</i>	<i>Sub- standard grade 2010 AED'000</i>	<i>Total 2010 AED'000</i>
Due from banks	118,425	-	-	118,425
Loans and advances	4,265	8,492	-	12,757
Investments in debt instruments	597,358	45,317	88,791	731,466
	<u>720,048</u>	<u>53,809</u>	<u>88,791</u>	<u>862,648</u>

As at the year end, the Bank has an amount of AED Nil (2010: AED nil) in loans and advances which was past due.

Credit risk exposure of the Bank's financial assets (excluding cash in hand and instruments in equity instruments) including contingent liabilities for each internal risk rating

	<i>Moody's equivalent grades</i>	<i>Total 2011 AED'000</i>	<i>Total 2010 AED'000</i>
Prime grade	Aaa	752,963	621,986
High grade	Aa1-Aa3	137,402	104,161
Standard grade	Baa-Baa3	118,148	216,564
Sub-Standard grade	Ba-B3	103,379	88,791
		<u>1,111,892</u>	<u>1,031,502</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Credit risk (continued)

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

Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of UAE equal to 14% of demand deposits and 1% of saving deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

Maturities of assets and liabilities at the date of statement of financial position are set out in the table below based on the remaining period to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2011	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Sub total over 12 months AED'000	Undated AED'000	Total AED'000
ASSETS									
Cash and balances with UAE Central Bank	30,449	-	-	30,449	-	-	-	-	30,449
Due from banks	165,386	-	55,000	220,386	-	-	-	-	220,386
Loans and advances	1,067	2,442	-	3,509	5,486	-	5,486	-	8,995
Investments	-	6,653	601	7,254	706,479	27,568	734,047	434,185	1,175,486
Property and equipment	-	-	-	-	-	-	-	1,167	1,167
Other assets	15,129	6,227	95	21,451	-	-	-	-	21,451
Total assets	212,031	15,322	55,696	283,049	711,965	27,568	739,533	435,352	1,457,934
LIABILITIES AND EQUITY									
Due to banks	385,298	-	-	385,298	-	-	-	-	385,298
Customer deposits	441,703	190,700	214,444	846,847	1,605	-	1,605	-	848,452
Other liabilities	20,194	2,150	707	23,051	-	-	-	-	23,051
Equity	-	-	-	-	-	-	-	201,133	201,133
Total liabilities and equity	847,195	192,850	215,151	1,255,196	1,605	-	1,605	201,133	1,457,934
Net liquidity gap	(635,164)	(177,528)	(159,455)	(972,147)	710,360	27,568	737,928	234,219	

Emirates Investment Bank P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2010	Less than 3 months AED '000	From 3 months to 6 months AED '000	From 6 months to 12 months AED '000	Sub total less than 12 months AED '000	1-5 years AED '000	Over 5 years AED '000	Sub total over 12 months AED '000	Undated AED '000	Total AED '000
ASSETS									
Cash and balances with UAE Central Bank	6,125	-	-	6,125	-	-	-	-	6,125
Due from banks	79,425	-	39,000	118,425	-	-	-	-	118,425
Loans and advances	7,140	2,679	-	9,819	1,932	-	1,932	-	11,751
Investments	-	3,819	1,782	5,601	615,407	110,458	725,865	174,987	906,453
Property and equipment	-	-	-	-	-	-	-	1,606	1,606
Other assets	11,419	-	-	11,419	-	-	-	-	11,419
Total assets	104,109	6,498	40,782	151,389	617,339	110,458	727,797	176,593	1,055,779
LIABILITIES AND EQUITY									
Due to banks	168,901	-	-	168,901	120,000	-	120,000	-	288,901
Customer deposits	348,775	117,116	89,211	555,102	10,228	-	10,228	-	565,330
Other liabilities	10,587	-	-	10,587	-	-	-	-	10,587
Equity	-	-	-	-	-	-	-	190,961	190,961
Total liabilities and equity	528,263	117,116	89,211	734,590	130,228	-	130,228	190,961	1,055,779
Net liquidity gap	(424,154)	(110,618)	(48,429)	(583,201)	487,111	110,458	597,569	(14,368)	

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at the year-end based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows based on Bank's deposit retention history.

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
2011						
Due to banks	-	385,980	-	-	-	385,980
Customer deposits	76,334	366,267	414,367	1,695	-	858,663
Other liabilities	20,194	2,150	707	-	-	23,051
Total undiscounted financial liabilities	96,528	754,397	415,074	1,695	-	1,267,694
2010						
Due to banks	-	169,061	-	126,550	-	295,611
Customer deposits	22,380	327,366	212,369	10,807	-	572,922
Other liabilities	10,587	-	-	-	-	10,587
Total undiscounted financial liabilities	32,967	496,427	212,369	137,357	-	879,120

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities:

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
2011						
Contingent liabilities	-	100	86,012	2,452	-	88,564
2010						
Contingent liabilities	-	-	116,765	35,000	-	151,765

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Investment Committee.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Board has established levels of interest rate risk by setting interest rate sensitivity limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement and equity.

<i>Increase in basis points</i>	<i>Impact on net profit 2011 AED'000</i>	<i>Impact on equity 2011 AED'000</i>	<i>Impact on net profit 2010 AED'000</i>	<i>Impact on equity 2010 AED'000</i>
100	(7,713)	(16,922)	(4,686)	(18,290)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate financial assets and financial liabilities held at the year end. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at year-end for the effect of assumed changes in interest rates. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at year-end on its non trading monetary assets and liabilities and their forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the equity (due to the fair value of currency sensitive non trading monetary assets which mainly relates to available for sale investments). A negative amount in the table reflects a potential net reduction in equity, while a positive amount reflects a net potential increase.

	<i>Change in currency rate in % 2011</i>	<i>Effect on equity 2011 AED'000</i>	<i>Change in currency rate in % 2010</i>	<i>Effect on equity 2010 AED'000</i>
Currency				
Euro	+10	1,327	+10	880
Pound Sterling	+10	566	+10	556
Chinese Remnibi	+10	290	+10	-
Kuwaiti Dinar	+10	24	+10	90

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

20 RISK MANAGEMENT (continued)

Currency risk (continued)

Since the UAE Dirham is on a fixed parity to the US Dollar therefore the management believes that presently the Bank is not exposed to any significant foreign currency risk in respect of US Dollar.

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 non-trading equity price risk exposure arises from the Bank's equity investment portfolio.

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

	<i>Change in equity price 2011 %</i>	<i>Effect on equity 2011 AED'000</i>	<i>Change in equity price 2010 %</i>	<i>Effect on equity 2010 AED'000</i>
New York Stock Exchange	+10	13,160	+10	377
Abu Dhabi Securities Market	+10	4,492	+10	5,626
Dubai Financial Market	+10	7,536	+10	6,135
Others	+10	14,915	+10	4,570

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

21 SEGMENTAL ANALYSIS

For operating purposes, the Bank is organised into two major business segments: (a) Private banking and Investment banking (PB and IB), which principally manages client's investment portfolio, provides credit facilities, accepts deposit from corporate and individual customers and provides advisory services on corporate finance and capital market transactions; and (b) Proprietary investments which is principally involved in managing the Bank's own investment portfolio and provides treasury services. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

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

	<i>Proprietary Investment Portfolio</i>		<i>PB & IB</i>		<i>Total</i>	
	<i>2011 AED</i>	<i>2010 AED</i>	<i>2011 AED</i>	<i>2010 AED</i>	<i>2011 AED</i>	<i>2010 AED</i>
Revenue *	65,437	55,247	12,438	4,296	77,875	59,543
Inter-segment adjustment	(28,148)	(22,118)	28,148	22,118	-	-
	<u>37,289</u>	<u>33,129</u>	<u>40,586</u>	<u>26,414</u>	<u>77,875</u>	<u>59,543</u>
Net profit for the year	<u>24,259</u>	<u>22,689</u>	<u>(1,973)</u>	<u>(2,341)</u>	<u>22,286</u>	<u>20,348</u>

	<i>Proprietary Investment Portfolio</i>		<i>PB & IB</i>		<i>Total</i>	
	<i>2011 AED'000</i>	<i>2010 AED'000</i>	<i>2011 AED'000</i>	<i>2010 AED'000</i>	<i>2011 AED'000</i>	<i>2010 AED'000</i>
Segment assets	1,278,501	1,030,877	179,433	24,901	1,457,934	1,055,779
Segment liabilities	<u>413,569</u>	<u>324,509</u>	<u>1,044,365</u>	<u>731,270</u>	<u>1,457,934</u>	<u>1,055,779</u>

* Revenue comprises interest income, net income from investments, other income and exchange (loss) / gain less impairment loss on investments.

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates. The fair values of the financial instruments appearing in the statement of financial position of the Bank are not materially different from their carrying values at year end, since assets and liabilities are either short-term in nature, valued using quoted market prices or in the case of loans and advances and deposits, frequently repriced.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

These financial instruments have been classified for the purpose of IAS 39 as follows:

<i>31 December 2011</i>	<i>At fair value through profit or loss AED'000</i>	<i>Available for sale AED'000</i>	<i>Loans and receivables AED'000</i>	<i>Amortised cost AED'000</i>	<i>Total AED'000</i>
<i>Financial assets</i>					
Cash and balances with UAE Central Bank	-	-	-	30,449	30,449
Due from banks	-	-	-	220,386	220,386
Loans and advances	-	-	8,995	-	8,995
Investments	-	1,142,332	-	-	1,142,332
Others	-	-	-	21,043	21,043
	<u>-</u>	<u>1,142,332</u>	<u>8,995</u>	<u>271,878</u>	<u>1,423,205</u>
<i>Financial liabilities</i>					
Due to banks	-	-	-	385,298	385,298
Customer deposits	-	-	-	848,452	848,452
Others	-	-	-	22,161	22,161
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,255,911</u>	<u>1,255,911</u>
<i>31 December 2010</i>					
<i>Financial assets</i>					
Cash and balances with UAE Central Bank	-	-	-	6,125	6,125
Due from banks	-	-	-	118,425	118,425
Loans and advances	-	-	11,751	-	11,751
Investments	-	898,549	-	-	898,549
Others	-	-	-	10,989	10,989
	<u>-</u>	<u>898,549</u>	<u>11,751</u>	<u>135,539</u>	<u>1,045,839</u>
<i>Financial liabilities</i>					
Due to banks	-	-	-	288,901	288,901
Customer deposits	-	-	-	565,330	565,330
Others	-	-	-	9,696	9,696
	<u>-</u>	<u>-</u>	<u>-</u>	<u>863,927</u>	<u>863,927</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

23 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of UAE in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

Capital management

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

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

The risk asset ratio calculations, in accordance with the capital adequacy guidelines established for the global banking industry, are as follows:

RISK WEIGHTED EXPOSURES

	<i>Balance</i>		<i>Risk weighted equivalents</i>	
	<i>2011 AED'000</i>	<i>2010 AED'000</i>	<i>2011 AED'000</i>	<i>2010 AED'000</i>
Assets				
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	583,306	523,343	-	-
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	839,461	502,262	663,163	407,522
Claims at 100%	36,482	31,180	36,482	31,180
	<u>1,459,249</u>	<u>1,056,785</u>	<u>699,645</u>	<u>438,702</u>
Off balance sheet items (note 18)				
Letters of guarantee	88,564	151,765	62,864	127,840
Total risk weighted assets			<u>762,509</u>	<u>566,542</u>
Risk asset ratio			<u>25.51%</u>	<u>31.80%</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

23 CAPITAL ADEQUACY (continued)

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings (including current year profit), and legal and special reserves. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of UAE. The other component of regulatory capital is Tier 2 capital which includes cumulative changes in fair values. The Bank has complied with all the requirements as set by the Central Bank of UAE in respect of Capital Adequacy.

24 FIDUCIARY ASSETS

	<i>2011</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>
Balance as at 31 December	<u>384,438</u>	<u>342,470</u>

The Bank manages investments on behalf of its customers. These investments are held by the Bank in a fiduciary capacity and are, accordingly, not included in these financial statements as assets of the Bank.