

**BOARD OF DIRECTORS REPORT
LAST QUARTER 2010**

**تقرير مجلس الإدارة
خلال الربع الأخير من العام ٢٠١٠**

INVESTBANK posted a net profit of AED 300.9 million in the year 2010.

The Bank has posted an operational income of AED 485 million, while the net operational profit reached AED 390.3 million.

The total interest income increased in the year 2010 to AED 352 million compared to AED 335 in the year 2009, an increase of over 5% over 2009 whereas the income excluding interest reached 132.9 million.

Total assets reached AED 10.3 billion along with total liabilities which reached AED 8.3 billion, both attaining an increase an increase of 7% over 2009.

Total loans and advances reached AED 7.6 Billion, attaining an increase of 18% over 2009 and customer deposit reached AED 7.6 Billion an increase of 8% over 2009.

The capital adequacy for the year ended 2010 remained stable at a ratio of 27.68% which is considerable compared to 12% minimum requirement of UAE Central Bank.

Further, the Board of Directors has proposed distributing 15% as Cash Dividend, after Central Bank's approval of our financials and ratification from the General Assembly in the coming up meeting.

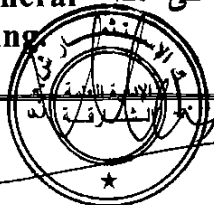
تجاوزت الأرباح الصافية لبنك الإستثمار مبلغ ٣٠٠,٩ مليون درهم بنهاية العام ٢٠١٠ وتجاوزت الأرباح التشغيلية للبنك ٤٨٥ مليون درهم وبلغ صافي الأرباح من العمليات ٣٩٠,٣ مليون درهم وإجمالي الإيرادات من الفوائد ٣٥٢ مليون درهم مقارنة بمبلغ ٣٣٥ مليون درهم بنهاية العام ٢٠٠٩ محققة زيادة نسبتها ٥% فيما بلغت الإيرادات من غير الفوائد ١٣٢,٩ مليون درهم.

وارتفع إجمالي الموجودات إلى مبلغ ١٠,٣ مليار درهم محققاً زيادة نسبتها ٧% مقارنة بالعام ٢٠٠٩ ووصل إجمالي حقوق المساهمين إلى ٢,١ مليار درهم وبزيادة نسبتها ٧% أيضاً.

وارتفع إجمالي القروض والسلفيات إلى ٧,٦ مليار درهم محققاً زيادة نسبتها ١٨% كما ارتفع إجمالي ودائع العملاء إلى ٧,٦ مليار درهم وبزيادة نسبتها ٨% مقارنة بالعام ٢٠٠٩ الماضي.

فيما استقرت ملاءة البنك عند نسبة ٢٧,٦٨% وهي نسبة جيدة مقارنة بنسبة الحد الأدنى الإلزامية البالغة ١٢%.

هذا ويقترح مجلس الإدارة توزيع نسبة ١٥% نقداً كأرباح على المساهمين بعد الحصول على موافقة المصرف المركزي على أرقام الميزانية ومصادقة الجمعية العمومية في إجتماعها السنوي على هذا الإقتراح.



INVEST BANK P.S.C.

Financial statements
31 December 2010

Registered office

Al Borj Avenue
P O Box 1885 - Sharjah
United Arab Emirates

INVEST BANK P.S.C.

Financial statements
31 December 2010

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**تقرير رئيس مجلس الإدارة
الى الجمعية العمومية العادية للمساهمين
في اجتماعها السنوي الخامس والثلاثين
المنعقد في الشارقة بتاريخ**

حضرات السادة المساهمين

يطيب لي أن أرحب بكم في هذا الاجتماع السنوي لجمعيتكم العمومية، لأقدم التقرير السنوي الخامس والثلاثين متضمناً النتائج التي حققها مصرفكم خلال العام 2010.

لقد برزت دولة الإمارات العربية المتحدة كأهم المناطق الإستثمارية عالمياً، كما احتلت مراكز متقدمة من حيث مستوى أداء التدفقات الإستثمارية الخارجية المباشرة إلى الدولة.

وجاءت في المرتبة الأولى عربياً وفي المراتب المتقدمة جداً عالمياً من حيث الحرية الإقتصادية، وتبوأت المركز الأول خليجياً من حيث حوكمة الشركات ومن حيث التنافسية الإقتصادية وضمن تصنيف الدول الأكثر اندماجاً في إقتصاد العولمة من حيث المناخ الإقتصادي لرواد الأعمال.

أمام هذه الإنجازات الكبيرة وغير المسبوقة عربياً، بات واضحاً أن القوة والمرونة اللتين يتمتع بهما الإقتصاد الإماراتي، تمكنانه من الوقوف بصلافة في وجه العاصفة المالية التي اجتاحت العالم. وأن قدرة دولة الإمارات على تجاوز الأزمة أسرع من غيرها بفضل ما تملكه من مقومات إقتصادية ومالية كبيرة بالإضافة إلى ما تملكه من خبرات في إدارة الأزمات.

ونرى أن الإستراتيجيات الطموحة وإرادة التطوير والجرأة في المبادرة والثقة بالنفس التي أكسبها إياها قائد مسيرتها صاحب السمو الشيخ خليفة بن زايد آل نهيان وأخوانه حكام الإمارات - أطال الله في أعمارهم - هي التي أوصلت دولة الإمارات إلى هذا المستوى العالمي من التطور وتحويلها إلى واحة إستثمارية مميزة في العالم.

ومن الطبيعي أن تتمكن دولة الإمارات من تجاوز الأزمة أسرع من غيرها، خصوصاً وأنها تمتلك مقومات إقتصادية ومالية كبيرة، وخبرات في إدارة الأزمات، وتوجيه جزء كبير من مداخيلها النفطية للإستثمار الداخلي وتوظيفها في مشاريع بنية تحتية تنموية طموحة تخدم الرؤية المستقبلية للدولة وإستراتيجيتها في التنويع الإقتصادي، فضلاً عن إمتلاكها لأفاق مستقبلية واعدة، الأمر الذي يعزز من جاذبيتها لسنوات طويلة...

عوامل كثيرة مؤثرة ... سوف تبقي مسيرة النمو في الدولة قوية ووفقاً لما أجمعت عليه التقارير الإقتصادية فإن دولة الإمارات سوف تحقق معدلات نمو تتراوح ما بين 4 و 5%، وأن الإقتصاد الإماراتي يستعيد عافيته تدريجياً، والموارد التي تمتلكها الدولة تضمن قدرتها على مواجهة مرحلة التباطؤ الإقتصادي الذي يعم العالم!

على الصعيد المصرفي استطاعت دولة الإمارات مواجهة تداعيات الأزمة المالية العالمية بتكلفة منخفضة نسبياً بفضل القدرة المالية القوية التي تتمتع بها، وبالرغم من الآثار السلبية التي فرضتها الأزمة المالية العالمية وأزمة الإنتمان على القطاعات الإقتصادية في العالم، وبالتحديد القطاع المالي، فإن القطاع المصرفي الإماراتي إستطاع أن يحافظ على

مكانته الاقتصادية بإعتباره أحد أهم القطاعات الحيوية، وقد أثبت هذا القطاع قدرته على تخطي التحديات التي فرضتها الأزمة ومانتج عنها من تباطؤ في نمو التسهيلات الإنتمانية، وشح السيولة في أسواق المال بالإضافة إلى الخسائر التي تحققت بكل من أسواق العقار والأسهم.

وفي مصرفكم، حرصنا على تكريس ثقافة الثقة والمصداقية لتكون أكبر وأهم أصول البنك، وهذا ساهم إلى حد كبير في المحافظة على جذب نسبة عالية من الودائع بخلاف بعض المؤسسات المالية الأخرى! وذلك كرس دون شك نظرة العملاء لمصرفكم كملاذ آمن متوجاً بثقة المتعاملين.

وقد استطاع مصرفكم من تحقيق أرباح جيدة خلال العام 2010، حيث تجاوزت الأرباح التشغيلية **485 مليون درهم**، وبلغ صافي الأرباح من العمليات **390.3 مليون درهم**، ووصل إجمالي الإيرادات من الفوائد إلى **352.2 مليون درهم**، فيما بلغت الإيرادات من غير الفوائد **132.9 مليون**.

وارتفع إجمالي الموجودات إلى **10.3 مليار درهم** وإجمالي المطلوبات إلى **8.3 مليار درهم**.

ويحتفظ البنك بملاءة عالية بلغت **27.68%** وهي نسبة جيدة مقارنة بنسبة الحد الأدنى الإلزامية البالغة **12%**.

وقد بلغت الأرباح الصافية للبنك خلال العام 2010 مبلغاً تجاوز **300.9 مليون** محققاً زيادة نسبتها **4.28%** مقارنة بالعام 2009.

وفي خطته التوسعية يتطلع مصرفكم لإفتتاح عشرة فروع جديدة إلى جانب فروع المنتشرة في أنحاء الدولة ليكون دائماً على مسافة قريبة جداً من عملائه.

يولي البنك اهتمامات خاصة في مجال التوظيف، ويحرص دائماً في المحافظة على تعزيز النسب المطلوبة.

وبالنسبة إلى التوزيعات فقد أوصى مجلس إدارة مصرفكم توزيع ما نسبته (15%) نقداً كأرباح على المساهمين وهي نسبة جيدة تحت ظل الظروف والعوامل الاقتصادية الراهنة.

وختاماً، أشكر حضوركم وأرفع بإسمكم وبإسم مجلس إدارة مصرفكم رئيساً وأعضاء أسمى آيات الشكر والإمتنان إلى مقام **صاحب السمو الشيخ سلطان بن محمد القاسمي** عضو المجلس الأعلى حاكم الشارقة على الإهتمام البالغ والدعم المستمر الذي يلقاه مصرفكم من سموه.

كما أتوجه بالشكر نيابة عنكم وعن مجلس الإدارة، إلى جميع موظفي البنك على الجهود التي يبذلونها دائماً في خدمة مصرفكم.

رئيس مجلس الإدارة



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INVEST BANK P.S.C.

Report on the financial statements

We have audited the accompanying financial statements of Invest Bank PSC ("the Bank"), which comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income (comprising a separate income statement and a statement of comprehensive income), statement of 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 financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and 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 opinion.

Opinion

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

Report on other legal and regulatory requirements

As required by the UAE 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 Bank and the contents of directors' report which relate to these financial statements are in agreement with the Bank'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 Bank or its financial position.

KPMG
Vijendra Nath Malhotra
Registration No. 48B
18 January 2011

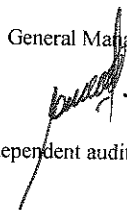
Investbank P.S.C.
Statement of financial position
at 31 December 2010

	Note	2010 AED'000	2009 AED'000
Assets			
Cash and deposits with the UAE Central Bank	8	576,101	1,031,024
Due from other banks	9	1,120,742	1,385,636
Customers' indebtedness for acceptances	25	422,094	286,552
Loans and advances to customers	4(b)	7,561,505	6,388,863
Investment securities	10	534,426	462,345
Property and equipment	11	41,456	41,506
Other assets	12	82,176	76,426
Total assets		10,338,500	9,672,352
Liabilities			
Deposits from other banks	13	79,026	297,654
Deposits from customers	14	7,642,578	7,062,738
Liabilities under acceptances	25	422,094	286,552
Other liabilities	15	184,435	148,869
Total liabilities		8,328,133	7,795,813
Equity			
Share capital	16	1,155,000	1,155,000
Legal reserve	16	265,279	235,193
Special reserve	16	265,279	235,193
Revaluation reserve	10	(37,997)	20,170
Retained earnings		362,806	230,983
Total equity		2,010,367	1,876,539
Total liabilities and equity		10,338,500	9,672,352

The notes on pages 9 to 54 are an integral part of these financial statements.

These financial statements were approved and authorized for issue by the Board of Directors on 18 January 2011 and signed on its behalf by:

General Manager



Director



The independent auditors' report is set out on page 3.

Investbank P.S.C.

Income statement

for the year ended 31 December 2010

	Note	2010 AED'000	2009 AED'000
Operating income			
Interest income	17	598,815	589,433
Interest expense	17	(246,657)	(254,431)
Net interest income	17	352,158	335,002
Net fees and commission income	18	108,692	97,231
		460,850	432,233
Net income from dealing in foreign currencies		20,684	21,789
Net (losses)/gains from investment securities	10	(2,034)	36,952
Other operating income	19	5,499	4,772
Total operating income		484,999	495,746
Operating expenses			
General and administrative expenses	20	(94,713)	(91,297)
Impairment losses on available-for-sale investments		-	(28,719)
Specific impairment provision on loans and advances, net	4(b)	(73,613)	(75,908)
Portfolio impairment provision	4(b)	(8,861)	(2,576)
Provision for other expenses	21	(6,950)	(8,729)
Total operating expenses		(184,137)	(207,229)
Net profit for the year		300,862	288,517
Earnings per share (UAE Dirhams)	22	0.260	0.250

The notes on pages 9 to 54 are an integral part of these financial statements.

The independent auditors' report is set out on page 3.

Investbank P.S.C.

Statement of comprehensive income

for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Net profit for the period	300,862	288,517
<i>Other comprehensive income:</i>		
Directors' remuneration	(1,200)	-
Revaluation reserve on available-for-sale investments transferred to income statement on disposal of investments	-	(22,893)
Impairment losses on available-for-sale investments transferred to income statement	-	28,719
Change in fair value of available-for-sale investments, net	-	37,731
Change in fair value of financial assets measured at fair value through other comprehensive income	(27,234)	-
Total comprehensive income for the period	272,428	332,074

The notes on pages 9 to 54 are an integral part of these financial statements.

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Investbank P.S.C.

Statement of changes in equity

for the year ended 31 December 2010

	Share capital AED'000	Legal reserve AED'000	Special reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2009	1,100,000	206,341	206,341	(23,387)	55,170	1,544,465
Total comprehensive income for the year						
Profit or loss	-	-	-	-	288,517	288,517
<i>Other comprehensive income</i>						
Directors remuneration	-	-	-	-	-	-
Amount transferred to profit or loss on disposal	-	-	-	(22,893)	-	(22,893)
Impairment loss on available for sale investments transferred to income statement	-	-	-	28,719	-	28,719
Net change in fair value	-	-	-	37,731	-	37,731
Total other comprehensive	-	-	-	43,557	-	43,557
Total comprehensive income for the year	-	-	-	43,557	288,517	332,074
Transactions with owners, recorded directly in equity						
Issue of bonus shares	55,000	-	-	-	(55,000)	-
Transfers to reserve	-	28,852	28,852	-	(57,704)	-
At 31 December 2009	<u>1,155,000</u>	<u>235,193</u>	<u>235,193</u>	<u>20,170</u>	<u>230,983</u>	<u>1,876,539</u>
At 1 January 2010	1,155,000	235,193	235,193	20,170	230,983	1,876,539
Effect of changes in accounting policy for financial instrument recognition & measurement (IFRS 9) Note 2	-	-	-	(30,742)	30,742	-
At 1 January 2010 - restated	1,155,000	235,193	235,193	(10,572)	261,725	1,876,539
Total comprehensive income for the year						
Profit or loss	-	-	-	-	300,862	300,862
<i>Other comprehensive income</i>						
Directors remuneration	-	-	-	-	(1,200)	(1,200)
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(27,234)	-	(27,234)
Gain on sale of financial assets measured at fair value through other comprehensive income	-	-	-	(191)	191	-
Total other comprehensive	-	-	-	(27,425)	(1,009)	(28,434)
Total comprehensive income for the period	-	-	-	(27,425)	299,853	272,428
Transactions with owners, recorded directly in equity						
Issue of bonus shares	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	(138,600)	(138,600)
Transfers to reserve	-	30,086	30,086	-	(60,172)	-
	<u>1,155,000</u>	<u>265,279</u>	<u>265,279</u>	<u>(37,997)</u>	<u>362,806</u>	<u>2,010,367</u>

The notes on pages 9 to 54 are an integral part of these financial statements.

The independent auditors' report is set out on page 3.

Investbank P.S.C.

Cash flow statement

for the year ended 31 December 2010

	Note	2010 AED'000	2009 AED'000
Cash flows from operating activities			
Net profit for the year		300,862	288,517
<i>Adjustments for:</i>			
Depreciation		5,340	6,957
Dividend income		(4,928)	(5,731)
Net losses/(gains) from investment securities		2,034	(36,952)
Net losses from revaluation of investment property		3,465	3,710
Impairment losses on available-for-sale investments		-	28,719
Net impairment losses and general provisions		<u>82,474</u>	<u>78,484</u>
		389,247	363,704
Changes in time deposits with other banks and certificates of deposit of the UAE Central Bank maturing after three months		425,000	(475,000)
Change in loans and advances to customers		(1,255,116)	156,437
Change in other assets		(9,215)	(121)
Change in deposits from customers		579,840	108,198
Change in other liabilities		35,566	43,844
Directors' remuneration paid		(1,200)	-
<i>Net cash generated from operating activities</i>		<u>164,122</u>	<u>197,062</u>
Cash flows from investing activities			
Purchase of property and equipment, net		(5,290)	(3,691)
Purchase of investment securities		(190,962)	(275,661)
Proceeds from sale of investment securities		89,613	352,190
Dividends received		4,928	5,731
<i>Net cash (used in)/generated from investing activities</i>		<u>(101,711)</u>	<u>78,569</u>
Cash flows from financing activity			
Cash dividend paid		(138,600)	-
<i>Net cash used in financing activity</i>		<u>(138,600)</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents		(76,189)	275,631
Cash and cash equivalents at 1 January		1,644,006	1,368,375
Cash and cash equivalents at 31 December	23	<u>1,567,817</u>	<u>1,644,006</u>

The notes on pages 9 to 54 are an integral part of these financial statements.

The independent auditors' report is set out on page 3.

Investbank P.S.C.

Notes

(forming part of the financial statements)

1 Legal status and activities

Investbank P.S.C. ('Invest Bank' or "the Bank") is a public shareholding company with limited liability and was incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered office of the Bank is at Al Borj avenue, P.O.Box 1885, Sharjah, United Arab Emirates ("UAE")

The principal activity of Invest Bank is to provide corporate and retail banking services within the UAE. The Bank is also involved in investment activities. Invest Bank operates through branches located in Sharjah, Abu Dhabi, Al Ain, Dubai, Ajman, Ras Al Khaimah and Fujairah. The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

2 Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and the guidelines of the UAE Central Bank.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for the following which are stated at fair value:

- Investment properties;
- Derivative financial instruments;
- Financial instruments at fair value through profit or loss; and
- Financial investments at fair value through other comprehensive income.

c) Functional and presentation currency

These financial statements have been presented using UAE dirham ("AED"), which is the Bank's functional currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of financial statements 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 underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 6.

2 Basis of preparation (continued)**e) Change in accounting policy**

IFRS 9 – Financial Instruments: Recognition and measurement

The Bank has adopted IFRS 9 Financial Instruments (IFRS 9) in 2010 in advance of its effective date. The Bank has chosen 1 April 2010 as its date of initial application. The standard has been applied retrospectively and as permitted by IFRS 9, comparative financial information have not been restated.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at the amortised cost or fair value.

Debt instruments are measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contracts cash flows and (ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss ("FVTPL"). Additionally, even if the asset meets the amortised cost criteria the entity may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces the accounting mismatch.

Only financial assets that are classified as measured at amortised cost are tested for impairment.

Investment in equity instruments are classified and measured at FVTPL except if the equity instrument is not held for trading and is designated by the bank as at fair value through other comprehensive income ("FVTOCI"). If the equity investment is designated as FVTOCI, all gains and losses, except for dividend income are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

The management has reviewed and assessed all of the Bank's existing financial assets as at the date of initial application of IFRS 9. As a result :

- the Bank's investments in debt instruments meeting the required criteria are measured at amortised cost;
- the Bank's equity investments not held for trading have been designated as at FVTOCI; and
- the Bank's remaining investment in equity investments and debt instruments are measured at FVTPL.

The impact of change in accounting policy from the beginning of the current year (as at 1 January 2010) has been to increase retained earning opening balance by AED 30.7 million and to decrease investments revaluation reserve opening balance by AED 30.7 million as follows:

	Retained earnings	Investment revaluation reserves
	AED'000	AED'000
<u>Due to reclassification of financial asset to:</u>		
Financial assets measured at FVTPL	(1,748)	1,748
Financial assets measured at FVTOCI	32,490	(32,490)
	30,742	(30,742)

Had IFRS 9 not been adopted during the current period, the statement of income would have been impacted by a decrease in profit by AED 43.1 million resulting from impairment of available for sale investments.

Additional disclosures required , reflecting the revised classification and measurement of financial assets of the bank as result of adopting IFRS 9, are shown in note 10 to the financial statements.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been consistently applied by the Bank, except as explained in in note 2(e), which addresses the changes in the accounting policy.

a) Interest income and expense

Interest income and interest expense are recognised in income statement on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates the future cash flows considering all contractual terms in the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate;
- the effective portion of fair value changes in qualifying, hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that hedged cash flows affect interest income/expense;
- fair value changes in the qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from investments.

Fair value changes on the other derivatives held for risk management purposes, and other financial assets and liabilities carried at FVTPL, are presented in net income from other financial instruments at FVTPL in the income statement.

b) Fees and commission income

Fees and commission income are generally recognised on an accrual basis when the related services are performed by the Bank. Fee and commission expenses are expensed as the related services are received.

c) Dividend income

Dividend income is recognised in the income statement when the Bank's right to receive income is established. Usually this is the ex-dividend date for equity securities.

d) Financial assets

The Bank initially recognises financial assets on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently measured at FVTPL, the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination.

Classification

As per IFRS 9 - policy applicable from 1 January 2010

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of equity for the issuer except for certain non-derivative puttable instrument presented as equity by the issuer. All other non-derivative assets are 'debt instruments'.

3 Summary of significant accounting policies *(continued)*

d) *Financial assets (continued)*

Financial assets measured at amortised cost

Debt instruments, including loans and advances are measured at amortised cost if both following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instrument meeting these criteria are measured initially at the fair value plus transaction costs (except if they are designated as at FVTPL). They are subsequently measured at amortised cost using the effective interest method less any impairment. Subsequent to initial recognition the Bank is required to reclassify debt instrument from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria is no longer met.

The Bank may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial assets been measured at amortised cost.

Financial assets at FVTPL

Debt instrument that do not meet the amortised cost criteria described above or that meet the criteria but the Bank has chosen to designate these as at FVTPL at initial recognition are measured at FVTPL. Subsequent to the initial recognition, the Bank is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and the instrument's contractual cash flow meets the amortised cost criteria. Debt instruments designated by the Bank as at FVTPL cannot be reclassified.

Investments in equity instruments are classified as financial assets at FVTPL, unless the Bank designates an investment that is not held for trading as at FVTOCI at initial recognition.

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in income statement. The net gain or loss recognised in the income statement is included in the net investment income in the income statement.

Interest income on debt instruments at FVTPL is included in the net investment income. Dividend income on investments in equity instruments at FVTPL is recognised in income statement when the Bank's right to receive the dividends is established.

Financial assets at FVTOCI

At initial recognition the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation to FVTOCI is not permitted if the equity instrument is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Bank manages together that has evidence of a recent annual pattern of short term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

3 Summary of significant accounting policies (continued)

d) Financial assets (continued)

Dividend in these investments in equity instruments are recognised in the income statement when the Bank's right to receive the dividends is established, unless the dividends clearly represents a recovery of part of the cost of the investment.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments fair value reserve. Where the asset is disposed off, the cumulative gain or loss previously accumulated in the investments fair value reserve is not transferred to income statement, but is reclassified to retained earnings in the statement of changes in equity.

As per IAS 39 - applicable for comparative figures only and financial assets that have already been derecognised at date of initial application

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

Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial asset are designated at fair value through profit or loss in the following circumstances:

a) the assets and liabilities are managed, evaluated and reported internally on a fair value basis.; b) the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; and c) the asset or liability contains an embedded derivative that modifies significantly the cash flows that would otherwise be required under the contract.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in any market. They arise when the Bank provides funds directly to a debtor with no intention of trading in the loan. Loans and advances are initially measured at fair value and subsequently measured at their amortised cost less impairment losses, if any.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

Available-for-sale assets

Available-for-sale financial assets are non-derivative investments that are not designated in any other category of financial assets. All available-for-sale investments are carried at fair value.

Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in the income statement. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in the income statement for the period.

Impairment of financial assets

Financial assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Bank considers evidence of impairment for loans and advances and held to maturity investments at both a specific and a collective level.

3 Summary of significant accounting policies (continued)

d) Financial assets (continued)

Specific level

At each reporting date, the Bank assesses on a case-by-case basis whether there is any objective evidence that a asset is impaired. Impairment losses on assets carried at amortised cost are measured as 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 interest rate.

Collective level

Impairment is determined on a collective basis for two different scenarios

- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified;
- for homogeneous groups of loans that are not considered individually significant.

Impairment losses are recognised in the income statement and reflected in an allowance for impairment.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for loan impairment in the income statement.

De-recognition of financial assets

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

e) Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

3 Summary of significant accounting policies (continued)

e) Financial liabilities and equity instruments issued by the Bank (continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired or incurred principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be recognised as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including banks borrowings and customers' deposits, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities

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

f) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRSs/IASs, or of gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3 Summary of significant accounting policies *(continued)*

g) Fair value measurement principles

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

When available, the Bank measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

When a market for a financial instrument is not active, the Bank establishes fair value using valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instrument that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank measures the fair value using the following fair value hierarchy that reflects the significance of input used in making these measurement.

Level 1: A fair value measurement for a financial instrument is classified in level 1 of the fair value hierarchy if the fair value is determined as the unadjusted quoted price for an identical instrument in an active market.

Level 2: A fair value measurement determined using observable inputs other than unadjusted quoted prices for an identical instruments, and that does not use significant unobservable inputs, is classified in level 2 of the fair value hierarchy.

Level 3: If a fair value measurement uses significant unobservable inputs, including using observable inputs that require significant adjustments based on unobservable inputs, then the resulting fair value measurement is classified in level 3 of the fair value hierarchy.

h) Derivative financial instruments

The Bank uses derivative financial instruments primarily to satisfy the requirements of its customers. Derivatives held for internal risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position and all changes in their fair value are recognised immediately in income statement. The Bank measures all derivative financial instruments initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of those financial instruments except financial assets and liabilities at fair value through profit or loss. Derivative financial instruments and investments available-for-sale are carried at their fair value.

3 Summary of significant accounting policies (continued)**i) Foreign currency transactions**

The accounting records of the Bank are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to UAE Dirhams at the spot foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign currency differences arising on re-translation are recognised in profit or loss, except for differences arising on the re-translation of available-for-sale/FVTOCI equity instruments, which are recognised directly in other comprehensive income.

j) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of assets as follows:

Buildings	20
Office installations and improvements	10
Office furniture and equipment	2 to 5
Motor vehicles	3

Depreciation methods, useful lives and residual values are reassessed at the reporting date. No depreciation is charged on freehold land and capital-work-in-progress. Depreciation methods, useful lives and residual values are reassessed at the reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

k) Investment Property

Investment Property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Bank holds some investment property acquired through the enforcement of security over loans and advances. Investment property is measured at fair value with any change therein recognised in the income statement.

3 Summary of significant accounting policies (continued)

l) Staff terminal benefits

Staff benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. On the termination of employment, expatriate employees are entitled to receive end of service benefits in accordance with the UAE labour law. The Bank accrues for its liability in this respect based on the liability that would arise under the UAE labour law if the employment of all staff were terminated at the reporting date, which is not expected to be materially different to that computed in accordance with IFRS.

The Bank contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Bank's contributions are charged to the statement of income in the period to which they relate. In respect of this scheme, the Bank has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

m) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows to reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

n) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

o) Earnings per share

The Bank presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with the Central Bank of the UAE, amounts due from other banks and deposits from other banks having original maturity of three months or less.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

q) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans and advances at fair value through profit or loss (refer note 3(d)).

3 Summary of significant accounting policies *(continued)*

r) Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Bank's shareholders.

s) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

t) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the statement of income on a straight-line basis over the term of the lease.

u) Impairment of non financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The reduction in value is recognised in the income statement.

v) Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the Executive Committee of the Bank to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

w) Directors remuneration

In accordance with the Ministry of Economy and Commerce Interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), directors' remuneration of the Bank has been treated as an appropriation from equity and recognised under other comprehensive income.

x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for accounting period starting 1 January 2010, and have not been early adopted in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank. The Bank does not plan to adopt this standard early and to the extent of the impact has not been determined.

4 Financial Risk Management

a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Legal and Compliance risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, risk management frameworks, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors (the Board or board or BOD) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank has established a Board Level Executive Committee, Asset and Liability Committee (ALCO) and Audit Committee.

The risk management policies are in place to identify and analyse the risks faced by the Bank, define "risk appetite" and "risk tolerance" levels, set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered and present a comprehensive view of risk from a strategic and operational perspective and have a process to address risks proactively and promote capturing of opportunities.

The Bank has initiated the process of upgrading its risk management to embrace an enterprise risk management (ERM) framework and, to manage the business by integrating concepts of strategic planning, operations management, internal control; which include methods and process, encompassing all risk dimensions to seize the opportunities related to the achievement of the Bank's objectives and to address the needs of all stakeholders.

b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers, other banks and investment securities.

For risk management purposes, credit risk arising on trading securities is managed independently under the directives from the Board by a committee, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated some of the responsibilities of the management of credit risk to its Executive Committee (EC) and Credit Committee. A separate and centralised credit risk management division ("CRMD") is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements and recommending the credit policies for Board approval.

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

- *Establishing the authorisation structure* for the approval and renewal of credit facilities. The Board has delegated limited approval authorities (discretionary limits) to the credit committees. Changes to discretionary limits are subject to Board approval. Similarly, facilities in excess of discretionary limits are approved by the EC or the Board of Directors.
- *Reviewing and assessing credit risk* in accordance with authorisation structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigants. This risk grading is being refined and enhanced to develop and customise risk ratings (internal ratings) for Basel-II compliance (FRB approach) with the objective of levying risk premium, where appropriate, particularly in respect of counter party financial institutions the Bank uses external rating such as Standard and Poor's or other recognised credit rating agencies in order to manage its credit risk exposure.
- *Reviewing compliance* on an ongoing basis with agreed exposure limits relating to counterparties, industries and countries. Regular reports are provided to the management, executive committee and the Board of Directors on the quality of portfolios and appropriate corrective action is initiated.
- *Limiting concentrations of credit exposure* to counterparties and industries (for loans and advances) by establishing exposure caps and monitoring sectoral exposures. Preferred sectors are identified regularly in line with market dynamics. Accordingly marketing initiatives are directed either to expand or efforts are focused for reduction to balance risk / reward trade offs.
- *Settlement limits and usage of a clearing agent* to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process.

4 Financial risk management (continued)**b) Credit Risk (continued)****Exposure to credit risk**

The Bank measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any.

	Loans and advances		Due from banks		Debt securities	
	2010 AED'000	2009 AED'000	2010 AED'000	2009 AED'000	2010 AED'000	2009 AED'000
Carrying amount, net	7,561,505	6,388,863	1,120,742	1,385,636	300,242	249,147
Individually impaired*						
Substandard	108,236	134,484	-	-	-	-
Doubtful	86,352	84,609	-	-	-	-
Legal and loss	273,105	492,755	-	-	-	-
Gross amount	467,693	711,848	-	-	-	-
Interest suspended	(82,551)	(232,722)	-	-	-	-
Specific allowance for impairment	(340,775)	(373,752)	-	-	-	-
Carrying Amount	44,367	105,374	-	-	-	-
Past due but not impaired (overdue by more than 90 days)*						
	109,891	114,182	-	-	-	-
	109,891	114,182	-	-	-	-
Neither past due nor impaired						
Standard	7,335,345	6,092,239	1,120,742	1,385,636	300,242	249,147
Accounts with renegotiated terms	114,875	111,180	-	-	-	-
	7,450,220	6,203,419	1,120,742	1,385,636	300,242	249,147
Total non-impaired portfolio	7,560,111	6,317,601	1,120,742	1,385,636	300,242	249,147
Collective allowance for impairment	(42,973)	(34,112)	-	-	-	-
	7,517,138	6,283,489	1,120,742	1,385,636	300,242	249,147
Carrying amount	7,561,505	6,388,863	1,120,742	1,385,636	300,242	249,147

* The Bank has a defined policy for delinquency, monitoring and controlling such delinquent accounts, in line with Central Bank and Basel II prescriptions.

Impaired loans and advances

Impaired loans and advances are financial assets for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are classified as substandard, doubtful, legal and loss, as appropriate, which is in accordance with the guidelines issued by the UAE Central Bank.

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is inappropriate on the basis of a genuine repayment source and/or delays in receiving assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to a deterioration in the borrower's financial/circumstantial position and where the Bank has made some concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance thereafter.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate for incurring losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Bank writes off loans/securities (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and there is no scope to pursue any other avenues.

However, in the event there are future chances for recovery where the Bank believes there are merits in keeping the account open, the debit is written down with a nominal balance of AED 10 to keep the account open for tracking purposes.

Collateral and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of cash margins, pledges/ liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Bank accepts guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organizations, large corporates and high networth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are updated during annual reviews. Generally, collateral is not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Bank's policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

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Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below.

		2010 AED'000	2009 AED'000
Against neither past due nor impaired			
Cash		1,650,038	1,468,589
Commercial and industrial property		1,625,873	1,650,698
Residential property		-	-
Equities		151,048	134,812
Other		609,176	474,221
	1	<u>4,036,135</u>	<u>3,728,320</u>
Against past due but not impaired			
Cash		14,096	32,256
Commercial and industrial property		709	63,279
Equities		1,086	-
Other		7,094	18,647
	2	<u>22,985</u>	<u>114,182</u>
Against impaired			
Cash		10,819	11,640
Commercial and industrial property		15,119	11,950
Equities		2,667	2,580
Other		1,682	5,639
	3	<u>30,287</u>	<u>31,808</u>
Total collateral held	1+2+3	<u>4,089,407</u>	<u>3,874,310</u>

Collateral values reflect the maximum exposure or the value of the collateral whichever is lower. Actual pledged values in most cases are higher.

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Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Concentration of Credit Risk

The Bank monitors internally concentrations of credit risk by sector and geographical location. An analysis of concentrations of credit risk as defined by the Bank's internal approved guidelines at the reporting date is shown below (all figures in AED'000):

	Loans and advances		Due from banks		Debt securities	
	2010	2009	2010	2009	2010	2009
Carrying value, net	7,561,505	6,388,863	1,120,742	1,385,636	300,242	249,147
Concentration by sector:						
Sovereign	1,669,417	923,917	-	-	229,195	174,100
Construction	1,021,999	1,167,458	-	-	-	-
Trade	1,134,307	1,205,115	-	-	-	-
Real estate and real estate trading	936,902	1,025,411	-	-	70,022	70,022
Manufacturing	831,558	802,539	-	-	1,025	5,025
Services	973,850	676,897	-	-	-	-
Investments	722,180	581,468	-	-	-	-
Banks and financial institutions	266,755	231,673	1,120,742	1,385,636	-	-
Transport and communication	132,563	97,811	-	-	-	-
Retail	72,904	83,127	-	-	-	-
Agriculture	-	-	-	-	-	-
Others	265,369	234,033	-	-	-	-
Gross total	8,027,804	7,029,449	1,120,742	1,385,636	300,242	249,147
Concentration by location:						
United Arab Emirates	8,025,999	7,025,628	1,000,897	1,334,466	300,242	249,147
Other G.C.C.	605	3,002	9,411	7,863	-	-
Other Arab countries	1,200	819	11,108	4,952	-	-
Western Europe	-	-	99,326	37,540	-	-
Australia	-	-	-	815	-	-
Gross total	8,027,804	7,029,449	1,120,742	1,385,636	300,242	249,147

All loans and advances are at variable rates.

4 Financial risk management (continued)**b) Credit Risk (continued)**

In accordance with the disclosure requirement of BASEL II Pillar 3 concentrations of credit risk by industry segment and currency are as follows. (All figures in AED'000):

**Gross credit exposure by industry segment
(as defined by the Central Bank of the UAE)**

Industry Segment	Loans and advances		Debt Securities		Total	
	2010	2009	2010	2009	2010	2009
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining and Quarrying	214,333	220,245	-	-	214,333	220,245
Manufacturing	889,061	863,859	-	5,000	889,061	868,859
Electricity and Water	95	183	-	-	95	183
Construction	1,760,808	1,907,545	71,047	70,047	1,831,855	1,977,592
Trade	1,142,158	1,215,108	-	-	1,142,158	1,215,108
Transport, Storage and Communication	132,563	97,811	-	-	132,563	97,811
Financial Institutions	266,755	231,673	-	-	266,755	231,673
Services	978,349	695,581	-	-	978,349	695,581
Government	1,669,417	923,917	229,195	174,100	1,898,612	1,098,017
Retail/ Consumer banking	83,517	83,483	-	-	83,517	83,483
All Others	890,748	790,044	-	-	890,748	790,044
Total	8,027,804	7,029,449	300,242	249,147	8,328,046	7,278,596

Gross credit exposure by currency

	Loans and advances		Debt Securities		Total	
	2010	2009	2010	2009	2010	2009
Foreign currency	367,839	464,484	55,095	-	422,934	464,484
AED	7,659,965	6,564,965	245,147	249,147	7,905,112	6,814,112
Total	8,027,804	7,029,449	300,242	249,147	8,328,046	7,278,596

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Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Impaired loans and advances by industry segment and geographical location at 31 December 2010, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues	Provisions		Adjustments		Total impaired assets
	90 days and above	Total	Specific	Write - offs	Write - backs	
Agriculture, fishing and related activities	-	-	-	-	-	-
Crude Oil, Gas, Mining	4,737	4,737	4,716	-	-	21
Manufacturing	61,110	61,110	54,568	-	14	6,542
Electricity and Water	-	-	-	-	-	-
Construction	281,388	281,388	247,981	213,667	3,324	33,407
Trade	64,440	64,440	64,013	29,357	1,509	427
Transport, Storage and Communication	18,259	18,259	18,054	-	33	205
Financial Institutions	-	-	-	-	-	-
Services	12,076	12,076	10,803	103	52	1,273
Government	-	-	-	-	-	-
Retail/ Consumer banking	25,683	25,683	23,191	378	1,281	2,492
All Others	-	-	-	29,438	424	-
Total	467,693	467,693	423,326	272,943	6,637	44,367
Concentration by Geography						
United Arab Emirates	466,449	466,449	422,310	272,943	6,637	44,139
Non UAE	1,244	1,244	1,016	-	-	228
Total	467,693	467,693	423,326	272,943	6,637	44,367

Impaired loans and advances by industry segment at 31 December 2009, as defined by the Central Bank of the UAE (all figures in AED'000):

Industry Segment	Overdues	Provisions		Adjustments		Total impaired assets
	90 days and above	Total	Specific	Write - offs	Write - backs	
Agriculture, fishing and Crude Oil, Gas, Mining	-	-	-	-	-	-
Manufacturing	60,728	60,728	44,254	608	-	16,474
Electricity and Water	-	-	-	-	-	-
Construction	510,933	510,933	432,196	245	550	78,737
Trade	97,816	97,816	93,014	14,674	560	4,802
Transport, Storage and Communication	774	774	760	-	-	14
Financial Institutions	902	902	902	-	834	-
Services	13,424	13,424	10,980	-	-	2,444
Government	-	-	-	-	-	-
Retail/ Consumer banking	12,157	12,157	11,948	-	-	209
All Others	15,114	15,114	12,420	654	1,595	2,694
Total	711,848	711,848	606,474	16,181	3,539	105,374
Concentration by Geography:						
United Arab Emirates	710,110	710,110	604,954	16,181	3,539	105,156
Non UAE	1,738	1,738	1,520	-	-	218
Total	711,848	711,848	606,474	16,181	3,539	105,374

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Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

At reporting date the Bank does not have any impaired loans overdoes less than 90 days. At 31 December 2010 the collective impairment provision is AED 42.9 Million (2009: AED 34.1 million)

Analysis of the Bank's exposure at 31 December 2010 based on BASEL II standardised approach is as follows (all figures in AED 000):

Asset classes	<u>On balance sheet</u>	<u>Off balance sheet</u>	<u>Credit risk mitigation (CRM)</u>			<u>Risk weighted assets</u>
	Gross outstanding	Net exposure after credit conversion factor	Exposure before CRM	CRM	After CRM	
Claims on sovereign	1,453,497	1,246	1,454,743	-	1,454,743	-
Claims on (PSEs)	958,934	127,143	1,086,077	-	1,086,077	-
Claims on banks	1,074,621	39,591	1,114,212	40	1,114,172	272,280
Claims on securities firm	54,651	-	54,651	35,000	19,651	19,651
Claims on corporates	5,506,047	2,509,059	8,015,039	1,648,806	6,366,233	6,395,591
Claims included in retail portfolio	43,179	1,505	44,684	2,479	42,205	31,679
Claims secured by residential property	-	-	-	-	-	-
Claims secured by commercial real estate	247,917	-	247,917	10,457	237,460	237,460
Past due loans	577,584	42,436	198,275	24,335	173,940	236,408
High risk categories	119,182	-	118,338	-	118,338	177,507
Other assets	351,644	-	347,936	-	347,936	249,431
	10,387,256	2,720,981	12,681,872	1,721,117	10,960,755	7,620,007

Analysis of the Bank's exposure at 31 December 2009 based on BASEL II standardised approach is as follows (all figures in AED 000):

Asset classes	<u>On balance sheet</u>	<u>Off balance sheet</u>	<u>Credit risk mitigation (CRM)</u>			<u>Risk weighted assets</u>
	Gross outstanding	Net exposure after credit conversion factor	Exposure before CRM	CRM	After CRM	
Claims on sovereign	1,926,204	4,601	1,930,805	-	1,930,805	-
Claims on (PSEs)	146,352	-	146,352	-	146,352	-
Claims on banks	1,329,294	38,821	1,367,696	-	1,367,696	302,022
Claims on securities firm	54,657	-	54,657	35,000	19,657	19,657
Claims on corporates	4,652,039	2,295,372	6,932,206	1,690,402	5,241,804	5,379,896
Claims included in retail portfolio	52,482	1,246	53,728	2,771	50,957	38,220
Claims secured by residential property	-	-	-	-	-	-
Claims secured by commercial real estate	594,726	-	594,726	8,144	586,582	586,582
Past due loans	826,030	133,400	371,242	37,617	333,625	400,644
High risk categories	119,182	-	118,338	-	118,338	177,507
Other assets	330,401	-	326,044	-	326,044	224,674
	10,031,367	2,473,440	11,895,794	1,773,934	10,121,860	7,129,202

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

Summary of exposure and credit risk mitigation at reporting date (all figures in AED 000):

	Exposure		Risk Weighted Assets	
	2010	2009	2010	2009
Gross exposure prior to credit risk mitigation	12,681,872	11,895,794	7,649,400	7,268,339
Less: exposure covered by on balance sheet netting	-	-	-	-
Less: exposure covered by eligible financial collateral	1,674,993	1,512,484	8,180	12,221
Less: exposure covered by guarantees	46,124	261,450	21,213	126,915
Less: exposure covered credit derivatives	-	-	-	-
Net exposure after credit risk mitigation	10,960,755	10,121,860	7,620,007	7,129,202

4 Financial risk management (continued)

b) Credit Risk (continued)

Analysis of the Bank's exposure at 31 December 2010 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

Asset classes	<u>Gross Credit Exposures</u>				Risk weighted assets
	Rated	Unrated	Total	Post CRM	
Claims on Sovereigns	-	1,453,497	1,453,497	1,453,497	-
Claims on PSE	-	958,934	958,934	958,934	-
Claims on securities firms	-	54,651	54,651	19,651	19,651
Claims on Banks	1,074,621	-	1,074,621	1,074,621	253,439
Claims on Corporate	-	5,506,047	5,506,047	4,575,117	4,575,117
Regulatory and other retail exposure	-	43,179	43,179	41,778	31,333
Residential retail exposure	-	-	-	-	-
Commercial Real Estate	-	247,917	247,917	237,460	237,460
Other assets	-	351,644	351,644	347,936	249,431
	1,074,621	8,615,869	9,690,490	8,708,994	5,366,431

Analysis of the Bank's exposure at 31 December 2009 based on BASEL II standardised approach excluding high risk and past due exposure is as follows (all figures in AED 000):

Asset classes	<u>Gross Credit Exposures</u>				Risk weighted assets
	Rated	Unrated	Total	Post CRM	
Claims on Sovereigns	-	1,926,204	1,926,204	1,926,204	-
Claims on PSE	-	146,352	146,352	146,352	-
Claims-securities firms	-	54,657	54,657	54,657	19,657
Claims on Banks	1,329,294	-	1,329,294	1,328,875	283,783
Claims on Corporate	-	4,652,039	4,652,039	4,636,833	3,757,227
Regulatory and other retail exposure	-	52,482	52,482	35,461	37,285
Residential retail exposure	-	-	-	-	-
Commercial Real Estate	-	594,726	594,726	594,726	586,582
Other assets	-	329,752	329,752	326,044	224,674
	1,329,294	7,756,212	9,085,506	9,049,152	4,909,208

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

b) Credit Risk (continued)

The Bank continues to carry classified doubtful debts and delinquent accounts on its books even after making allowances for impairment in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement ("IAS 39"). However, interest is accrued on doubtful and legal accounts for litigation purposes only and accordingly interest is not taken to income. Such accruals increase gross loans and advances receivable. Loans and advances are written off only when all legal and other avenues for recovery or settlement are exhausted.

The movement during the year in the impairment provision and interest in suspense was as follows:

	Portfolio basis		Specific basis	
	2010 AED'000	2009 AED'000	2010 AED'000	2009 AED'000
At 1 January	34,112	31,536	606,474	506,381
Charge for the year	8,861	2,576	80,250	79,447
Recoveries during the year	-	-	(6,637)	(3,539)
Interest not recognised in the income statement (net)	-	-	16,182	40,366
Amounts written off during the year	-	-	(272,943)	(16,181)
	<u>42,973</u>	<u>34,112</u>	<u>423,326</u>	<u>606,474</u>

c) Liquidity Risk

Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. Liquidity risk can be segregated into two broad categories :

- 1) Funding Liquidity Risk is the risk that the Bank will encounter difficulty in funding the increases in assets and meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets, without incurring unacceptable losses.
- 2) Market liquidity risk is the risk that the Bank cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

Management of liquidity risk

Following the international economic crisis, liquidity risk management has remained at the helm of risk management and is also receiving the close attention of the Board of Directors.

The Bank's approach to managing liquidity is to ensure that management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Bank maintains a portfolio of short term liquid assets, largely made up of Central Bank certificate of deposits ("CDs") short-term liquid trading investments and inter-bank placements. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets (i.e., total assets by maturity against total liabilities by maturity) and its loans to deposit ratio.

Details of the Bank's net liquid assets are summarised in the table below by the maturity profile of the Bank's assets and liabilities based on the contractual repayments and does not take account of the effective maturities as indicated by the Bank's deposit retention history. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

c) Liquidity Risk (continued)

Maturities of assets and liabilities

	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 year AED'000	Total AED'000
At 31 December 2010				
Assets				
Cash and deposits with the UAE Central Bank	576,101	-	-	576,101
Due from other banks	1,070,742	50,000	-	1,120,742
Loans and advances to customers	1,385,579	2,219,135	3,956,791	7,561,505
Customers' indebtedness for acceptances	363,971	50,651	7,472	422,094
Investment securities	1,025	234,184	299,217	534,426
Property and equipment	4,866	8,425	28,165	41,456
Other assets	9,746	16,244	56,186	82,176
Total assets	3,412,030	2,578,639	4,347,831	10,338,500
Liabilities and equity				
Deposits from other banks	79,026	-	-	79,026
Deposits from customers	3,697,432	3,504,751	440,395	7,642,578
Liabilities under acceptances	363,971	50,651	7,472	422,094
Other liabilities	88,529	84,840	11,066	184,435
Equity	-	-	2,010,367	2,010,367
Total liabilities and equity	4,228,958	3,640,242	2,469,300	10,338,500
At 31 December 2009				
Assets				
Cash and deposits with the UAE Central Bank	556,024	475,000	-	1,031,024
Due from other banks	1,385,636	-	-	1,385,636
Loans and advances to customers	1,522,128	2,346,820	2,519,915	6,388,863
Customers' indebtedness for acceptances	224,565	54,231	7,756	286,552
Investment securities	95,995	117,203	249,147	462,345
Property and equipment	8,059	8,425	25,022	41,506
Other assets	25,220	10,560	40,646	76,426
Total assets	3,817,627	3,012,239	2,842,486	9,672,352
Liabilities and equity				
Deposits from other banks	297,654	-	-	297,654
Deposits from customers	4,882,119	1,760,497	420,122	7,062,738
Liabilities under acceptances	224,565	54,231	7,756	286,552
Other liabilities	86,189	62,680	-	148,869
Equity	-	-	1,876,539	1,876,539
Total liabilities and equity	5,490,527	1,877,408	2,304,417	9,672,352

Maturities of assets and liabilities have been determined on the basis of the outstanding period from the reporting date to the contracted or expected maturity dates.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

c) Liquidity Risk (continued)

Residual contractual maturity of financial assets and liabilities

The following table shows the undiscounted cash flows on the Bank's financial assets and liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flow on these instruments may vary significantly from this analysis, for example demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

2010	Carrying amount AED'000	Gross nominal inflow / (outflow) AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative assets					
Cash and deposits with the UAE Central Bank	576,101	602,247	602,247	-	-
Due from other banks	1,120,742	1,619,168	1,569,042	50,126	-
Loans and advances to customers	7,561,505	8,194,403	1,501,551	2,404,877	4,287,975
Customers' indebtedness for acceptances	422,094	422,094	363,971	50,651	7,472
Investment securities	534,426	536,220	2,819	117,203	416,198
Other assets	82,176	82,176	9,746	16,244	56,186
Derivative assets					
Trading: outflow	-	-	-	-	-
Trading: inflow	-	980	980	-	-
Total assets	10,297,044	11,457,288	4,050,356	2,639,101	4,767,831
Non-derivative liabilities					
Deposits from banks	79,026	(79,338)	(79,338)	-	-
Deposits from customers	7,642,578	(7,897,840)	(3,820,926)	(3,621,810)	(455,104)
Liabilities under acceptances	422,094	(422,094)	(316,571)	(50,651)	(54,872)
Other liabilities	184,435	(184,435)	(88,529)	(84,840)	(11,066)
Derivative liabilities					
Trading: outflow	-	(980)	(980)	-	-
Trading: inflow	-	-	-	-	-
Total liabilities	8,328,133	(8,584,687)	(4,306,344)	(3,757,301)	(521,042)
Unrecognised loan commitments	-	(1,333,106)	(533,242)	(526,458)	(273,406)

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

c) Liquidity Risk (continued)

Residual contractual maturity of financial assets and liabilities

2009	Carrying amount AED'000	Gross nominal inflow / (outflow) AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000
Non-derivative assets					
Cash and deposits with the UAE Central Bank	1,031,024	1,031,632	556,087	475,545	-
Due from other banks	1,385,636	1,386,673	1,386,673	-	-
Loans and advances to customers	6,388,863	6,917,860	1,648,160	2,546,300	2,723,400
Customers' indebtedness for acceptances	286,552	286,552	224,565	54,231	7,756
Investment securities	462,345	497,185	95,995	142,230	258,960
Other assets	76,426	76,426	25,220	10,560	40,646
Derivative assets					
Trading: outflow	-	-	-	-	-
Trading: inflow	-	6,747	6,747	-	-
Total assets	<u>9,630,846</u>	<u>10,203,075</u>	<u>3,943,447</u>	<u>3,228,866</u>	<u>3,030,762</u>
Non-derivative liabilities					
Deposits from banks	297,654	(297,736)	(297,736)	-	-
Deposits from customers	7,062,738	(7,321,940)	(4,999,290)	(1,885,778)	(436,872)
Liabilities under acceptances	286,552	(286,552)	(224,565)	(54,231)	(7,756)
Other liabilities	148,869	(148,869)	(86,188)	(62,681)	-
Derivative liabilities					
Trading: outflow	-	(6,747)	(6,747)	-	-
Trading: inflow	-	-	-	-	-
Total liabilities	<u>7,795,813</u>	<u>(8,061,844)</u>	<u>(5,614,526)</u>	<u>(2,002,690)</u>	<u>(444,628)</u>
Unrecognised loan commitments	<u>-</u>	<u>(1,475,791)</u>	<u>(560,800)</u>	<u>(546,580)</u>	<u>(368,411)</u>

d) Market Risk

Market Risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

d) Market Risk (continued)

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

Assets and liabilities repricing profile

	Effective interest rate %	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000	Non-interest bearing AED'000	Total AED'000
Assets						
Cash and deposits with the UAE						
Central Bank	0.15	200,000	-	-	376,101	576,101
Due from other banks	0.31	904,776	50,000	-	165,966	1,120,742
Loans and advances to customers	8.37	1,385,579	2,219,135	3,956,791	-	7,561,505
Customers' indebtedness for acceptances	-	-	-	-	422,094	422,094
Investment securities	2.33	-	-	300,242	234,184	534,426
Property and equipment	-	-	-	-	41,456	41,456
Other assets	-	-	-	-	82,176	82,176
Total assets		2,490,355	2,269,135	4,257,033	1,321,977	10,338,500
Liabilities and equity						
Deposits from banks	1.06	28,895	-	-	50,131	79,026
Deposits from customers	3.34	2,505,652	3,504,751	440,395	1,191,780	7,642,578
Liabilities under acceptances	-	-	-	-	422,094	422,094
Other liabilities	-	-	-	-	184,435	184,435
Equity	-	-	-	-	2,010,367	2,010,367
Total liabilities and equity		2,534,547	3,504,751	440,395	3,858,807	10,338,500
Interest rate sensitivity gap		(44,192)	(1,235,616)	3,816,638	(2,536,830)	-
Cumulative interest rate sensitivity gap:						
As of 31 December 2010		(44,192)	(1,279,808)	2,536,830		
As of 31 December 2009		(321,282)	740,041	3,088,981		

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Notes (continued)

4 Financial risk management (continued)

d) Market Risk (continued)

The assets and liabilities repricing profile has been determined on the basis of the final maturity period or interest repricing periods at the reporting date, whichever is earlier.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Sensitivity analysis - Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and related income. The Bank manages the risk principally through monitoring interest rate gaps and matching the re-pricing profile of assets and liabilities. The Bank also assesses the impact of defined movement in interest yield curves on its net interest income. The following is the impact of interest rate movement on interest income and regulatory capital.

	2010	2009
	AED '000	AED '000
Shift in yield curve		
+200 b.p.	59,195	49,712
-200 b.p.	(59,195)	(49,712)

A substantial portion of the Bank's assets and liabilities are re-priced within 1-year. Accordingly there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 8,951 million of monthly average interest bearing assets and AED 5,991 million of monthly average interest bearing liabilities (31 Dec 2009: AED 8,054 million average interest bearing assets and AED 5,569 million average interest bearing liabilities.) The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

Equity price risk

Equity price risk arises from FVTOCI/available-for-sale and fair value through profit or loss equity securities. The management of the Bank monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the management. The Bank manages this risk through diversification of investments in terms of industry

The primary goal of the Bank's investment strategy is to maximise investment returns. In accordance with this strategy, certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

Sensitivity analysis - equity price risk

Most of the Bank's equity investments are listed either on the Dubai Financial Market or the Abu Dhabi Securities Market. For such investments classified as available-for-sale, a 5% increase in the two markets at the reporting date would have increased equity by AED 5.84 million (31 December 2009: AED 10.06 million) and an equal change in the opposite direction would have decreased equity by a similar amount. For investments classified as fair value through profit or loss, the impact on the income statement would have been an increase or decrease of AED 0.05 million (31 December 2009: AED 0.59 million).

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

d) Market Risk (continued)

Foreign currency risk

Invest Bank engages in limited trading in foreign exchange on its own account. Its treasury activity is mainly directed to assisting its customers in managing their foreign exchange exposures. A system of exposure limits is in place to control price risk on foreign exchange exposures and a system of individual credit limits is in place to control counter-party risk. The amount mentioned in the table below reflects the equal but opposite potential effect on income statement and equity based on a 1% negative or positive currency fluctuation, with all other variables held constant.

At the reporting date, the Bank has the following net open currency exposures in respect of un-pegged currencies:

	2010			2009		
	Impact on	Impact on		Impact on	Impact on	
	income	equity	Total	income	equity	
	statement	AED'000	AED'000	statement	AED'000	
	AED'000	AED'000	AED'000	AED'000	AED'000	
British Pound	948	9	-	(616)	(6)	-
Euro	(2,244)	(22)	-	(18,657)	(187)	-
Lebanese Pound	117,203	-	1,172	117,203	-	1,172

e) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

Operational risks emanate from every segment of Bank's operation and are faced by all the business units.

Invest Bank has taken measures to put in place tools, firstly to identify all such operational risks. The Bank has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Bank's reputation.

For this purpose the Bank has hired a consulting firm that specialises in providing expertise in managing all risks, contracted to put in place a dedicated software and appointed a compliance and operational risk manager to oversee the whole process.

In addition to the reviews by internal audit, the compliance with policies and procedures will now be strengthened by reviews of compliance and operational risk manager.

In Order to ensure a structured and focused Operational risk management ("ORM") process, the Bank has also formed an ORM committee whose mandate is to oversee ORM process, consider each operational risk in order of "Priority by significance", to develop policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems as well as recommend best way to integrate the ORM in the overall organisation wide risk management process.

4 Financial risk management (continued)

f) Capital risk management and Basel II requirements

Capital allocation

The Bank's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Bank's objective when managing capital are as follows.

- Safeguarding the Bank's ability to continue as a going concern and increase return for shareholders; and
- Comply with regulatory capital set by Central Bank of UAE.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Bank also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the implemented Credit Appraisal System.

The Bank's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Bank has determined its regulatory capital as recommended by the New Basel II Capital Accord, in line with the guidelines of the UAE Central Bank with effect from 2007. The Bank has adopted a standardised approach for Credit risk and Market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB by 2011 and 2016 respectively. The Bank have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year. In 2009, the Central Bank has advised that the capital adequacy ratio should be increased to 11% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 7% by 30 September 2009 and 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% by 30 June 2010.

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

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges, general provision and subordinated term loans. The following limits have been applied for Tier 2 capital:
 - Total tier 2 capital shall not exceed 67% of tier 1 capital;
 - Subordinated liabilities shall not exceed 50% of total tier 1 capital;
 - General provision shall not exceed 1.25% of total risk weighted assets.

Investbank P.S.C.

Notes (continued)

4 Financial risk management (continued)

f) Capital risk management and Basel II requirements (continued)

Reporting Date: The Bank's regulatory capital position at 31 December was as follows:

	2010 AED '000	2009 AED '000
<i>TIER 1 CAPITAL</i>		
Share capital	1,155,000	1,155,000
Legal reserves	265,279	235,193
Special reserves	265,279	235,193
Retained earnings	188,356	57,283
	-----	-----
Total tier 1 capital	1,873,914	1,682,669
	=====	=====
<i>TIER 2 CAPITAL</i>		
Asset revaluation reserves	(37,997)	9,077
General provisions/general loan loss reserves	42,973	34,112
Subordinated debt	403,805	403,805
	-----	-----
Total tier 2 capital	408,781	446,994
	-----	-----
Total regulatory capital (Sum of tier 1 and 2 capital)	2,282,695	2,129,663
	=====	=====
<i>RISK WEIGHTED ASSETS</i>		
Credit risk	7,620,007	7,129,203
Market risk	30,379	115,961
Operational risk	596,518	687,326
	-----	-----
Total risk weighted assets (RWA)	8,246,904	7,932,490
	=====	=====
Total regulatory capital expressed as % of RWA	27.68%	26.85%
	=====	=====
Total tier 1 capital expressed as % of RWA	22.72%	21.21%
	=====	=====

Tier-2 Capital at 31 December 2010 as shown above includes subordinated debt from The Ministry of Finance of the U.A.E. amounting to AED 403,805 million (refer note 14).

Investbank P.S.C.

Notes *(continued)*

4 Financial risk management *(continued)*

f) Capital risk management and Basel II requirements *(continued)*

Total capital requirement for market risk under standardised approach as per BASEL II Pillar 3 is as follows:

	2010		2009	
	Capital required AED'000	Risk weighted assets AED'000	Capital required AED'000	Risk weighted assets AED'000
Interest rate risk	-	-	-	-
Equity position risk	164	1,365	1,892	18,921
foreign exchange risk	3,483	29,013	9,704	97,040
Commodity risk	-	-	-	-
Total capital requirement	<u>3,647</u>	<u>30,379</u>	<u>11,596</u>	<u>115,961</u>

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Notes (continued)

5 Classes and categories of financial instruments

Accounting classification and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values.

	FVTPL AED '000	FVTOCI AED '000	Financial assets at amortised cost AED '000
At 31 December 2010			
<u>Financial assets</u>			
Cash and deposits with the UAE Central Bank	-	-	576,101
Trading securities -Quoted bond	1,025	-	-
Due from banks	-	-	1,120,742
Investment in equities	-	234,184	-
Loans and advances to customers	-	-	7,561,505
Held to maturity - Sukuk / Bonds	-	-	284,347
	1,025	234,184	9,542,695
<u>Financial liabilities</u>			
Customer deposits	-	-	7,642,578
Deposits from banks	-	-	79,026
	-	-	7,721,604

	Held for trading at fair value AED'000	Held to maturity AED'000	Loans and advances AED'000	Available for sale at fair value AED'000	Others at amortized cost AED'000
At 31 December 2009					
<u>Financial assets</u>					
Cash and deposits with the UAE Central Bank	-	-	-	-	1,031,024
Trading securities -Quoted equities	11,828	-	-	-	-
Due from banks	-	-	1,385,636	-	-
Investment in equities	-	-	-	201,370	-
Loans and advances to customers	-	-	6,388,863	-	-
Held to maturity - Sukuk / Bonds	-	215,963	-	-	-
	11,828	215,963	7,774,499	201,370	1,031,024
<u>Financial liabilities</u>					
Customer deposits	-	-	-	-	7,062,738
Deposits from banks	-	-	-	-	297,654
	-	-	-	-	7,360,392

5 Classes and categories of financial instruments (continued)

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 April 2010.

	Original measurement category IAS 39	New measurement category IFRS 9	Original carrying amount	New carrying amount
Investment in listed shares	Held for trading	Financial assets at FVTOCI	10,717	10,717
Investment in listed shares	Available-for-sale investments	Financial assets at FVTOCI	107,874	107,874
Investment in unlisted shares	Available-for-sale investments	Financial assets at FVTOCI	117,203	117,203
Investment in bonds/sukuks	Held to maturity	Financial assets at amortised costs	249,148	249,148
Other financial assets	Loans and receivables	Financial assets at amortised costs	8,948,492	8,948,492
Total			9,433,434	9,433,434

6 Use of estimates and judgments

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies are as follows:

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on at least a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual loss experience.

(b) Fair value of derivatives and unquoted securities

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values, these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

(c) Impairment of available for sale equity investments (applicable for comparative only)

Prior to adoption of IFRS 9, the Bank determines that available for sale equity investments are impaired where there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate, when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Investbank P.S.C.

Notes (continued)

7 Segmental analysis

The Bank operates in one geographic area, the United Arab Emirates, and its results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

	2010			2009		
	Commercial Banking AED'000	Treasury and Investments AED'000	Total AED'000	Commercial Banking AED'000	Treasury and Investments AED'000	Total AED'000
Year ended						
Net interest and other income	418,501	66,498	484,999	398,081	97,665	495,746
Net impairment losses	(82,474)	-	(82,474)	(78,484)	(28,719)	(107,203)
Net profit/(loss) for the year	241,014	59,849	300,863	225,187	63,330	288,517
Segment capital expenditure	5,291	-	5,291	3,691	-	3,691
Segment depreciation	5,340	-	5,340	6,957	-	6,957
At 31 December						
Segment total assets	8,325,024	2,013,476	10,338,500	6,823,972	2,848,380	9,672,352
Segment total liabilities	8,241,892	86,241	8,328,133	7,527,340	268,473	7,795,813

8 Cash and deposits with the UAE Central Bank

	2010 AED'000	2009 AED'000
Cash in hand	61,600	55,595
Deposits in current a/c with the UAE Central Bank ("CB")	59,926	66,878
Placements in certificates of deposits with CB	200,000	675,000
Statutory reserve deposits with CB	254,575	233,551
	<u>576,101</u>	<u>1,031,024</u>

Statutory reserve deposits are required to be maintained as per regulations of the UAE Central Bank; the deposits are not available for the Bank's day-to-day operations and are non-interest bearing.

Investbank P.S.C.

Notes (continued)

9 Due from other banks

	2010 AED'000	2009 AED'000
Money market placements	932,657	1,249,300
Items in course of collection	188,085	136,336
	<u>1,120,742</u>	<u>1,385,636</u>

10 Investment securities

	2010 AED'000	2009 AED'000
Financial assets at fair value through profit or loss / Trading		
- quoted equities	-	11,828
- quoted bond	1,025	-
Financial assets at fair value through other comprehensive income / Available for sale financial assets		
- equities	234,184	201,370
Financial assets at amortised costs / Held to maturity		
- bonds	299,217	249,147
	<u>534,426</u>	<u>462,345</u>

FVTOCI equities include an unquoted equity investments held as strategic investments in First National Bank, Lebanon ("FNB") of AED 117.2 million (2009: AED 117.2 million), which represents and 15.7% interest in FNB. At 31 December 2010, the fair value of this investment is determined using comparable market value approach (2009: comparable market value approach), resulting in fair value gain of AED Nil (2009: AED 36.9 million) recognised in other comprehensive income.

All FVTOCI equities are quoted other then investment in FNB as stated above.

Revaluation reserve

At 31 December 2010, the negative revaluation reserve of AED 37.9 million (2009: positive revaluation reserve of AED 20.1 million) includes net fair value losses of AED 44.03 million (2009: loss of AED 16.2 million) on available-for-sale financial assets which are recognised in other comprehensive income.

Net (losses)/gains from investment securities

Net (losses)/gains from investment securities have the following components for the year ended 31 December:

	2010 AED'000	2009 AED'000
Realised gains / losses on sale of financial assets at fair value through profit or loss	2,131	18,019
Realised gains on sale of financial assets held as available-for-sale	-	22,893
Fair value adjustment for financial assets at fair value through profit or loss	(4,165)	(3,960)
	<u>(2,034)</u>	<u>36,952</u>

Investbank P.S.C.

Notes (continued)

10 Investment securities (continued)

Fair Value Hierarchy

The table below analyses financial instruments, measured at fair value at the end of reporting period, by level into fair value hierarchy into which the fair value measurement is categorised:

At 31 December 2010	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>	AED'000	AED'000	AED'000	AED'000
FVTPL	1,025	-	-	1,025
FVTOCI	113,155	121,029	-	234,184
	<u>114,180</u>	<u>121,029</u>	<u>-</u>	<u>235,209</u>
	<u><u>114,180</u></u>	<u><u>121,029</u></u>	<u><u>-</u></u>	<u><u>235,209</u></u>
At 31 December 2009	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>	AED'000	AED'000	AED'000	AED'000
Trading securities -Quoted equities	11,828	-	-	11,828
Available-for-sale financial assets	84,167	117,203	-	201,370
	<u>95,995</u>	<u>117,203</u>	<u>-</u>	<u>213,198</u>
	<u><u>95,995</u></u>	<u><u>117,203</u></u>	<u><u>-</u></u>	<u><u>213,198</u></u>

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Notes (continued)

11 Property and Equipment

	Land and building AED'000	Office installation and AED'000	Office furniture and equipment AED'000	Motor vehicles AED'000	Total AED'000
Cost					
At 1 January 2010	42,215	15,968	32,165	335	90,683
Additions	-	1,319	3,546	425	5,290
Disposals/ transfer	-	-	-	-	-
At 31 December 2010	42,215	17,287	35,711	760	95,973
Accumulated depreciation					
At 1 January 2010	16,539	8,206	24,097	335	49,177
Charge for the year	5	1,486	3,849	-	5,340
Disposals/ transfer	-	-	-	-	-
At 31 December 2010	16,544	9,692	27,946	335	54,517
Net book value at 31 December 2010	25,671	7,595	7,765	425	41,456
Cost					
At 1 January 2009	43,495	15,741	29,009	335	88,580
Additions	-	227	3,464	-	3,691
Disposals/ transfer	(1,280)	-	(308)	-	(1,588)
At 31 December 2009	42,215	15,968	32,165	335	90,683
Accumulated depreciation					
At 1 January 2009	16,925	6,732	19,816	335	43,808
Charge for the year	1,129	1,474	4,354	-	6,957
Disposals/ transfer	(1,515)	-	(73)	-	(1,588)
At 31 December 2009	16,539	8,206	24,097	335	49,177
Net book value at 31 December 2009	25,676	7,762	8,068	-	41,506

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Notes (continued)

12 Other assets

	2010 AED'000	2009 AED'000
Interest receivable	39,855	33,965
Investment properties	28,030	31,495
Prepayments and other assets	14,291	10,966
	<u>82,176</u>	<u>76,426</u>

The Bank had acquired two properties in settlement of debt. These properties are classified as investment properties. The management adopted a fair value model and revalued these properties to their estimated fair value based on a professional valuation performed by an independent real estate valuers. The change in fair value was recorded in other operating income.

13 Deposits from other banks

	2010 AED'000	2009 AED'000
Placements with the Bank	25,000	175,000
Items in course of collection	50,131	119,105
Demand deposits	3,895	3,549
	<u>79,026</u>	<u>297,654</u>

14 Deposits from customers

	2010 AED'000	2009 AED'000
Time deposits	6,033,103	5,434,664
Savings accounts	193,511	95,209
Current and other accounts	1,415,964	1,532,865
	<u>7,642,578</u>	<u>7,062,738</u>

Customer deposits by geographical area are as follows:

	2010 AED'000	2009 AED'000
Within the UAE	7,604,613	7,042,600
Others	37,965	20,138
	<u>7,642,578</u>	<u>7,062,738</u>

Time deposits include deposits of AED 404 million (2009: AED 404 million) received from the Ministry of Finance, United Arab Emirates. On 25 March 2009, the Shareholders resolved to convert these deposits into subordinate debt authorising the Board of Director to undertake necessary action to execute the agreement with the Ministry of Finance. On 30 December 2009, the Board of Directors resolved approving the term of the agreement for conversion of the above deposits and the signed agreement dated 31 December 2009 (re-categorisation date) was submitted by the Bank to the Ministry of Finance. As per the terms of the agreement these deposits can now be treated as subordinate to equity as lower Tier 2 capital in accordance with the conditions as set out in the agreement. The subordinate debt carries interest at 4% per annum payable quarterly from the date of re-categorisation until the maturity of loan in December 2016.

Investbank P.S.C.

Notes (continued)

15 Other liabilities

	2010 AED'000	2009 AED'000
Interest payable	70,914	74,679
Unearned commission income	26,158	20,976
Staff benefits payable	11,974	10,800
Accrued expenses	9,630	6,850
Managers' cheques	8,059	9,483
Others	57,700	26,081
	<u>184,435</u>	<u>148,869</u>

16 Capital and Reserves

At 31 December 2010, the Bank's authorised, issued and fully paid share capital was AED 1,155 million comprises 1,155 million shares of AED 1 each (at 31 December 2009: AED 1,155 million comprising 1,155 million shares of AED 1 each).

Proposed dividend

The Board of Directors has proposed to the shareholders a cash dividend of AED 173.2 million (2009 : AED 173 million) being 15% of the paid up capital (2009: 15%).

Reserves

In accordance with Article 82 of Federal Law No.10 of 1980, a transfer equivalent to 10% of net profit, if any, is made annually to the legal reserve until this reserve equals to 50% of the share capital.

In accordance with the Bank's Articles of Association, as a minimum 10% of net profit is transferred annually to a special reserve which will be used for purposes to be determined by the ordinary general meeting upon a proposal being made by the Board of Directors.

Investbank P.S.C.

Notes (continued)

17 Net interest income

	2010 AED'000	2009 AED'000
Interest income :		
Loans and advances to banks	6,421	11,878
Certificates of deposits	2,821	3,517
Performing loans	589,573	574,038
	<u>598,815</u>	<u>589,433</u>
Interest expenses :		
Deposits from other banks	(146)	(626)
Time deposits	(241,459)	(246,995)
Call deposits	(2,770)	(5,071)
Savings accounts and others	(2,282)	(1,739)
	<u>(246,657)</u>	<u>(254,431)</u>
	<u>352,158</u>	<u>335,002</u>

18 Net fees and commission income

	2010 AED'000	2009 AED'000
Fees and commission income :		
Letters of credit fee	24,137	18,106
Letters of guarantee fee	47,447	42,139
Retail and corporate lending fees	13,610	14,720
Minimum balance fees	237	241
Commission on transfers	4,637	4,948
Others	18,985	17,414
	<u>109,053</u>	<u>97,568</u>
Fees and commission expenses :		
Service charges	(309)	(293)
Others	(52)	(44)
	<u>(361)</u>	<u>(337)</u>
	<u>108,692</u>	<u>97,231</u>

19 Other operating income

	2010 AED'000	2009 AED'000
Fair value (loss)/gain on investment property	(3,465)	(3,710)
Dividends on investment securities	4,928	5,731
Other income	3,345	2,063
Rental income	691	688
	<u>5,499</u>	<u>4,772</u>

Investbank P.S.C.

Notes (continued)

20 General and administrative expenses

	2010 AED'000	2009 AED'000
Payroll and related costs	77,201	70,905
Occupancy	6,968	5,832
Others	10,544	14,560
	<u>94,713</u>	<u>91,297</u>

21 Provision for other expenses

	2010 AED'000	2009 AED'000
Depreciation	5,340	6,957
Provision for staff terminal benefits	1,610	1,772
	<u>6,950</u>	<u>8,729</u>

22 Earnings per share

	2010	2009
Basic earnings per share is calculated as follows:		
Net profit for the year AED ('000)	300,862	288,517
Weighted average number of shares outstanding at 31 December ('000)	1,155,000	1,155,000
Basic earnings per share AED	<u>0.260</u>	<u>0.250</u>

At reporting date the Bank do not have any instrument resulting in dilution of basic earnings per share.

23 Cash and cash equivalents

Cash and deposits with the UAE Central Bank include certificates of deposit amounting to AED 200 million (2009: AED 200 million) with the UAE Central Bank that mature within three months.

	2010 AED'000	2009 AED'000
Cash and deposits with the UAE Central Bank	576,101	556,024
Due from other banks with original maturity of three months or less	1,070,742	1,385,636
Deposits from other banks with original maturity of three months or less	(79,026)	(297,654)
	<u>1,567,817</u>	<u>1,644,006</u>

Cash and deposits with the UAE Central Bank include AED 254.5 million (2009: AED 233.5 million) comprising mandatory reserves with the U.A.E. Central Bank which are not available for use in the Bank's day to day operations.

24 Related party transactions

In the normal course of business, the Bank enters into various transactions with key management personnel and their related companies. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director, executive or otherwise, of the Bank. The related party transactions are executed at the terms agreed between the parties, which in opinion of the management are not significantly different from those that could have been obtained from third parties. The volume of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	Key management personnel 2010 AED'000	Companies associated with key management personnel 2010 AED'000	Key management personnel 2009 AED'000	Companies associated with key management personnel 2009 AED'000
Loans				
Loans outstanding at 1 January	118,295	286,535	83,318	348,129
Loans issued during the year	50,926	73,222	59,097	24,858
Loan repayments during the year	(89,437)	(103,370)	(24,120)	(86,452)
	<u>79,784</u>	<u>256,387</u>	<u>118,295</u>	<u>286,535</u>
Loans outstanding at 31 December				
Interest income earned during the year	<u>6,989</u>	<u>27,862</u>	<u>6,952</u>	<u>27,643</u>
Outstanding letters of credit and guarantees at 31 December	<u>4,048</u>	<u>24,600</u>	<u>3,315</u>	<u>130,827</u>

No provisions have been recognised in respect of loans granted to related parties (2009: Nil).

The loans extended to directors during the year are repayable over 1 year and bear interest at rates ranging from 7% to 12% per annum (2009: 4.5% to 12.5%). At 31 December 2010, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 216.1 million (2009: AED 236.02 million).

	Key management personnel 2010 AED'000	Companies associated with key management personnel 2010 AED'000	Key management personnel 2009 AED'000	Companies associated with key management personnel 2009 AED'000
Deposits				
Deposits at 1 January	161,411	535,349	140,666	502,789
Deposits received during the year	106,450	151,033	28,507	314,256
Deposits repaid during the year	(62,882)	(37,097)	(7,762)	(281,696)
	<u>204,979</u>	<u>649,285</u>	<u>161,411</u>	<u>535,349</u>
Deposits at 31 December				
Interest expenses during the year	<u>7,701</u>	<u>25,669</u>	<u>7,528</u>	<u>27,953</u>

24 Related party transactions (continued)

	2010	2009
	AED'000	AED'000
Key management compensation		
Salaries and other short term benefits	10,190	10,535
Termination benefits	230	228
	10,420	10,763

Proposed directors' remuneration

Subsequent to the reporting date, the Board of Directors proposed their remuneration in the amount of AED 1.2 million (2009: AED 1.2 million)

25 Commitments and contingent liabilities

The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	2010	2009
	AED'000	AED'000
Letters of credit	413,924	379,935
Letters of guarantee	3,989,523	3,769,185
Commitment to extend credit	1,333,106	1,475,791
Foreign exchange and forward commitments	980	6,747
	5,737,533	5,631,658

Commitment to extend credit represent unused portions of authorizations to extend credit in form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considered less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Exposure by geography as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2010	2009	2010	2009	2010	2009
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
United Arab Emirates	1,333,106	1,475,791	980	6,747	4,023,884	3,749,317
GCC Excluding UAE	-	-	-	-	379,563	399,803
	1,333,106	1,475,791	980	6,747	4,403,447	4,149,120

25 Commitments and contingent liabilities (continued)**Exposure by currency as on 31 December**

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2010	2009	2010	2009	2010	2009
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Foreign Currency	-	-	980	6,747	415,771	344,830
AED	1,333,106	1,475,791	(980)	(6,747)	3,987,676	3,804,290
	<u>1,333,106</u>	<u>1,475,791</u>	<u>-</u>	<u>-</u>	<u>4,403,447</u>	<u>4,149,120</u>

Exposure by industry segment as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2010	2009	2010	2009	2010	2009
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Agriculture, fishing and	-	-	-	-	-	48
Crude Oil, Gas, Mining	-	-	-	-	2,732	14,578
Manufacturing	14,523	26,485	-	-	498,830	424,114
Electricity and Water	-	-	-	-	-	7,453
Construction	990,562	1,103,431	491	-	1,847,262	1,329,891
Trade	-	-	489	-	810,185	635,274
Transport, Storage and	-	-	-	-	19,687	11,820
Financial Institutions	-	-	-	6,747	13,733	20,935
Services	-	-	-	-	218,808	310,187
Government	-	-	-	-	150,477	12,006
Retail/ Consumer	-	-	-	-	796,387	2,292
All Others	328,021	345,875	-	-	45,346	1,380,522
Total	<u>1,333,106</u>	<u>1,475,791</u>	<u>980</u>	<u>6,747</u>	<u>4,403,447</u>	<u>4,149,120</u>

25 Commitments and contingent liabilities (continued)**Exposure by residual contractual maturity as at 31 December**

	Commitment to extend credit		Foreign exchange and forward commitments		Other Commitments and contingent liabilities	
	2010	2009	2010	2009	2010	2009
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Less than 3 months	533,242	560,800	980	6,747	1,541,206	1,256,489
3 months to one year	799,864	914,991	-	-	2,862,241	2,892,631
One to five years	-	-	-	-	-	-
Grand Total	<u>1,333,106</u>	<u>1,475,791</u>	<u>980</u>	<u>6,747</u>	<u>4,403,447</u>	<u>4,149,120</u>

26 Customers' indebtedness for acceptances

Customers' indebtedness for acceptances represents the accepted documented liability amount which is recoverable from the respective customers of the Bank at the reporting date. **Liabilities under acceptances** represents bills of exchange, letters of credit etc where the Bank has accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Bank does not have a legal right of set-off.

27 Comparative figures

Certain comparative figures have been reclassified where necessary to conform to current year's presentation.