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On behalf of the Board of Directors, I am pleased to present to the shareholders the Audited Financial Statements of First Gulf Bank for the year ended 31 December 2009 and report the bank's performance during the year.

Global Markets

The trend for 2009 was really set in what we experienced in 2008, an unprecedented global economic crisis and a systemic collapse of the world financial systems. Despite such a backdrop, whilst economic woes continued some semblance of order was restored by active Government interventions across the globe. Governments took decisive action both in terms of introducing liquidity and capital into the system but more so by acting in a coordinated manner so that the damage did not spread. In the recent era, markets have started defining nations, it is now time that nations define what is best for them and create an economic order which serves all and not a section of society. In the latter half of 2009, markets especially Capital Markets recovered across the globe but in many cases it did not translate into increased employment, reduced foreclosures or positive GDP growth. Looking at the world economy today, the crisis continues to unfold maybe at a reduced pace and in unpredictable ways, yet some things are getting very clear. Many economies across Asia, Africa and the Middle East are still growing as they do not face the structural credit de-leveraging, over complexity afflicting Western markets but are built on huge domestic consumptions, natural resources and a basic intention to create growth in sectors important to them. These economies with particular reference to the BRIC nations and the U.A.E. will be the beacons of growth and drive economic order throughout the world in 2010 and beyond. The Eurozone struggling with contractions in growth, lack of liquidity and huge external debt in certain economies in the European Union which may see stress in its currency, its ability to raise debt and its political order for the Union in 2010. Whilst estimated world growth will be negative in 2009, it is expected that this will return to positive territory in 2010 based on strong growth in Asia led by China/India and the Middle East.

The U.A.E. – Way Forward

2009 was characterized by some stress in certain parts of the U.A.E. Economy with some sectors like Real Estate, Capital Markets, Trading and Contracting facing some problems. The year also saw issues with long-term liquidity and shifting of population patterns as the interdependence of economies around the world impacted some parts of the U.A.E. In the midst of all this, the U.A.E. Government and the Central Bank of the U.A.E. took timely measures to ensure adequate liquidity and capital was maintained in the system. The capital injections by the Abu Dhabi Department of Finance and the Ministry of Finance were timely and ensured that banks in the country had solid risk bearing capacity. Going forward it is important to look beyond the immediate issues; while the near-term economic conditions have stabilised, there are some apprehensions and these apprehensions are being addressed by the U.A.E. Government. Our markets remain fundamentally attractive, the government's initiative both on the Hydrocarbon side and the huge infrastructure spending planned will ensure growth of the economy in 2010. The U.A.E. has been "building for the future" with a world-class infrastructure in place which will reap benefits in the years to come. The measures being taken in the Oil and Gas sector with further developments in the downstream economy will ensure that we maximise the benefits from this key sector. With fiscal discipline, infrastructure spending, diversified economy and a cohesive economic policy our market still offers enormous potential. In fact, the crisis globally will accelerate the shift in Economic Power from West to the East and will throw up new economic leaders; I am sure that the U.A.E. will not miss its tryst with destiny. We are in the right markets, we will stay and grow.

Financials 2009

First Gulf Bank has had another astounding year with profits of AED3.310 Billion (USD901 Million) an increase of 10.2% over the previous year. Our equity at AED23 Billion (USD6.2 Billion) with a capital adequacy ratio of 22.6% is large and increases our risk bearing capacity apart from preparing us for new growth. Our financial ratios are amongst the best in the banking industry (Return on Average Equity is 16.8%, Return on Average Assets is 2.8%) and we take pride in having built enough provisioning and liquidity on our Balance Sheet. All our businesses have delivered excellent results and we have maintained our earnings split from our core business and our other ancillary businesses. Our joint venture bank in Libya and branch in Singapore are coming to maturity and we added to our geographical footprint this year with Representative Offices in Qatar and India; both good places to do business.

We have continued to build on our leadership position in the U.A.E. and are now able to deliver good results even under stressed economic situations. The First Gulf Bank story in 2009 was simple and focused on continued delivery of shareholders value through rigorous focus on our core business; our prudent approach to liquidity and capital; and our continued discipline in cost and risk management. As stated in my last report, the year 2009 was the year of "Consolidation" and we stuck to this and consolidated our business and grew in sectors that we believed had the ability to withstand the economic situation. We will continue with this theme in 2010 and I will call it the year of "Consolidation with Selective Growth". There are exciting opportunities available in the U.A.E. and the geographies that we operate in and with the government's spending on key sectors to continue, we shall participate in this and other initiatives.

2008 and 2009 were years of extraordinary dislocation and disruption in financial markets. First Gulf Bank has weathered the storm relatively well, we have not been unscathed but we have continued to be open for business for most of our customers and once again delivered record profits. These results demonstrate the underlying strength of our businesses and the overall resilience of the Bank. We are in very good shape, with a strong balance sheet, an excellent customer franchise and good business momentum. We enter 2010 acutely aware of the many challenges across our markets, but also confident and clear about the way ahead.

The Board of Directors acknowledging the great success of the bank in 2009 is pleased to recommend the distribution of 50% cash dividend to Shareholders.

I would like to take this opportunity to express my gratitude to the President His Highness Sheikh Khalifa Bin Zayed Al Nahyan for his guidance and support, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President, Prime Minister and Ruler of Dubai, His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and their Highnesses and all members of the Supreme Council for their support.

I would also like to extend my thanks to all our Shareholders, Customers, Correspondent Banks, the Central Banks of the countries we operate in and all staff at the Central Bank of the U.A.E. for their continued help and support to First Gulf Bank.

Finally, I would like to thank all the Board Members, the Management Team and the staff for their perseverance, commitment, and dedication in a very tough year and to congratulate them for a job done extremely well.

Hazza Bin Zayed Al Nahyan
Chairman

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FIRST GULF BANK PJSC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Gulf Bank PJSC and its subsidiaries ("the Bank"), which comprise the consolidated balance sheet as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

Signed by
Andre Kasparian
Partner
Ernst & Young
Registration No. 365

27 January 2010
Abu Dhabi

CONSOLIDATED BALANCE SHEET

31 December 2009

	Notes	**2009 AED 000**	2008 AED 000	**2009 US$ 000**	2008 US$ 000
Assets					
Cash and balances with U.A.E. Central Bank	3	**5,546,970**	5,005,045	**1,510,201**	1,362,659
Due from banks and financial institutions	27	**4,626,549**	2,837,412	**1,259,610**	772,505
Loans and advances	4	**90,385,885**	79,362,996	**24,608,191**	21,607,132
Non-trading investments	5	**13,481,978**	9,979,576	**3,670,563**	2,717,009
Investment in associates	6	**561,455**	553,030	**152,860**	150,566
Investment properties	7	**6,000,383**	3,991,341	**1,633,646**	1,086,671
Other assets	8	**4,230,602**	3,780,048	**1,151,811**	1,029,145
Property and equipment	9	**638,721**	2,012,260	**173,896**	547,852
Total assets		**125,472,543**	107,521,708	**34,160,778**	29,273,539
Liabilities					
Due to Banks	10	**1,940,567**	3,112,642	**528,333**	847,439
Due to U.A.E. Central Bank	11	**-**	4,200,000	**-**	1,143,479
Customers' deposits	12	**86,421,906**	73,962,659	**23,528,970**	20,136,852
Term loans	13	**9,819,962**	5,784,975	**2,673,552**	1,575,000
Other liabilities	14	**4,387,340**	3,841,822	**1,194,484**	1,045,963
Total liabilities		**102,569,775**	90,902,098	**27,925,339**	24,748,733
Equity					
Equity attributable to equity holders of the Bank					
Share capital	16	**1,375,000**	1,375,000	**374,353**	374,353
Treasury shares	17	**(198,833)**	(44,871)	**(54,134)**	(12,216)
Capital notes	18	**4,000,000**	-	**1,089,028**	-
Legal reserve	19	**5,305,110**	5,305,110	**1,444,353**	1,444,353
Special reserve	19	**846,648**	846,648	**230,506**	230,506
General reserve	19	**120,000**	120,000	**32,671**	32,671
Revaluation reserve	9	**87,554**	70,730	**23,837**	19,257
Proposed cash dividends	19	**677,000**	477,400	**184,318**	129,976
Retained earnings		**6,834,854**	4,545,986	**1,860,838**	1,237,677
Cumulative changes in fair values		**(114,988)**	(32,516)	**(31,306)**	(8,853)
Foreign currency translation reserve		**(14,508)**	(18,246)	**(3,950)**	(4,968)
Mandatory convertible bonds	20	**3,600,000**	3,600,000	**980,125**	980,125
		22,517,837	16,245,241	**6,130,639**	4,422,881
Minority interests		**384,931**	374,369	**104,800**	101,925
Total equity		**22,902,768**	16,619,610	**6,235,439**	4,524,806
Total equity and liabilities		**125,472,543**	107,521,708	**34,160,778**	29,273,539

Chairman   Managing Director   Chief Executive Officer

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	**2009 AED 000**	2008 AED 000	**2009 US$ 000**	2008 US$ 000
Interest income and income from Islamic financing	21	**6,489,973**	4,957,185	**1,766,941**	1,349,628
Interest expense and Islamic financing expense	22	**(2,656,241)**	(2,376,685)	**(723,180)**	(647,069)
NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING		**3,833,732**	2,580,500	**1,043,761**	702,559
Share of profits of associates	6	**29,039**	156,943	**7,906**	42,729
Other operating income	23	**2,301,243**	1,961,006	**626,529**	533,898
OPERATING INCOME		**6,164,014**	4,698,449	**1,678,196**	1,279,186
General and administrative expenses	24	**(1,080,583)**	(1,134,896)	**(294,196)**	(308,983)
PROFIT FROM OPERATIONS BEFORE IMPAIRED ASSETS CHARGE		**5,083,431**	3,563,553	**1,384,000**	970,203
Provision for impairment of loans and advances	25	**(1,680,466)**	(566,350)	**(457,519)**	(154,193)
Impairment of available for sale investments		**(90,000)**	-	**(24,503)**	-
PROFIT FOR THE YEAR		**3,312,965**	2,997,203	**901,978**	816,010
Attributable to:					
Equity holders of the Bank		**3,310,335**	3,005,250	**901,262**	818,201
Minority interests		**2,630**	(8,047)	**716**	(2,191)
		3,312,965	2,997,203	**901,978**	816,010
Basic and diluted earnings per share	26	**AED 2.06**	AED 2.05	**US$ 0.56**	US$ 0.56

The attached notes 1 to 34 form part of these consolidated financial statements.

	2009 AED 000	2008 AED 000	2009 US$ 000	2008 US$ 000
PROFIT FOR THE YEAR	**3,312,965**	2,997,203	**901,978**	816,010
OTHER COMPREHENSIVE INCOME:				
Net unrealised losses on available for sale investments	**(123,034)**	(85,659)	**(33,496)**	(23,321)
Impairment of available for sale investments	**90,000**	-	**24,503**	-
Realised gains on available for sale investments	**(49,683)**	(21,755)	**(13,527)**	(5,923)
Board of directors remuneration	**(66,000)**	(60,000)	**(17,969)**	(16,335)
Share of changes recognised directly in associates' equity	**245**	97	**67**	26
Revaluation reserve	**16,824**	-	**4,580**	-
Foreign exchange translation	**7,735**	(18,246)	**2,106**	(4,968)
Other comprehensive loss for the year	**(123,913)**	(185,563)	**(33,736)**	(50,521)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,189,052**	2,811,640	**868,242**	765,489
Total comprehensive income attributable to:				
Equity holders of the Bank	**3,182,425**	2,819,687	**866,438**	767,680
Minority interests	**6,627**	(8,047)	**1,804**	(2,191)
	3,189,052	2,811,640	**868,242**	765,489

The attached notes 1 to 34 form part of these consolidated financial statements.

	Notes	2009 AED 000	2008 AED 000	2009 US$ 000	2008 US$ 000
OPERATING ACTIVITIES					
Profit for the year		**3,312,965**	2,997,203	**901,978**	816,010
Adjustments for:					
Depreciation	9	**61,424**	38,810	**16,723**	10,566
Loss (profit) on sale of property and equipment	23	**24,385**	(98,684)	**6,639**	(26,867)
Provision for impairment of loans and advances	25	**1,680,466**	566,350	**457,519**	154,193
Impairment of available for sale investments		**90,000**	-	**24,503**	-
Gain on revaluation of investment properties	7	**(221,030)**	(288,437)	**(60,177)**	(78,529)
Loss on revaluation of property and equipment	23	**83,558**	-	**22,749**	-
Gain on disposal of development properties	23	**(459,978)**	-	**(125,232)**	-
Gain on sale of investment properties		**-**	(240,119)	**-**	(65,374)
(Gain) loss from investments		**(46,236)**	262,434	**(12,588)**	71,449
Share of profits of associates	6	**(29,039)**	(156,943)	**(7,906)**	(42,729)
Operating profit before changes in operating assets and liabilities:		**4,496,515**	3,080,614	**1,224,208**	838,719
Deposits with Banks		**(1,083,250)**	524,999	**(294,922)**	142,935
Deposits with U.A.E. Central Bank		**(500,000)**	(865,000)	**(136,129)**	(235,502)
Loans and advances		**(12,703,355)**	(35,520,078)	**(3,458,577)**	(9,670,590)
Other assets		**(407,299)**	(860,476)	**(110,890)**	(234,271)
Due to U.A.E. Central Bank		**(4,200,000)**	4,200,000	**(1,143,479)**	1,143,479
Due to Banks		**(1,172,075)**	326,410	**(319,106)**	88,868
Customers' deposits		**16,969,334**	21,706,590	**4,620,020**	5,909,771
Other liabilities		**523,523**	1,565,405	**142,532**	426,191
Cash from (used) in operations		**1,923,393**	(5,841,536)	**523,657**	(1,590,400)
Directors' remuneration paid		**(60,000)**	(50,000)	**(16,335)**	(13,613)
Net cash from (used) in operating activities		**1,863,393**	(5,891,536)	**507,322**	(1,604,013)
INVESTING ACTIVITIES					
Purchase of non-trading investments		**(16,534,972)**	(14,793,711)	**(4,501,762)**	(4,027,692)
Proceeds from redemption and sale of non-trading investments		**12,906,089**	13,148,219	**3,513,773**	3,579,695
Purchase of property and equipment	9	**(84,495)**	(1,414,218)	**(23,004)**	(385,031)
Investments in associates		**-**	(80,000)	**-**	(21,781)
Dividends from associates		**20,859**	10,275	**5,679**	2,797
Additions to investment properties	7	**(638,444)**	(1,198,692)	**(173,821)**	(326,352)
Proceeds from sale of investment properties		**-**	658,193	**-**	179,198
Proceeds from the sale of development properties		**571,235**	-	**155,523**	-
Proceeds from disposal of property and equipment		**1,411**	215,521	**384**	58,677
Net cash used in investing activities		**(3,758,317)**	(3,454,413)	**(1,023,228)**	(940,489)
FINANCING ACTIVITIES					
Mandatory convertible bonds	20	**-**	3,600,000	**-**	980,125
Acquisition of treasury shares		**(153,962)**	(44,871)	**(41,917)**	(12,216)
Capital contribution by minority shareholders		**-**	382,407	-	104,114
Dividends paid	19	**(460,081)**	(233,645)	**(125,260)**	(63,611)
Interest on mandatory convertible bonds		**(159,791)**	-	**(43,504)**	-
Interest on capital notes		**(120,000)**	-	**(32,671)**	-
Issuance of capital notes		**4,000,000**	-	**1,089,028**	-
Draw-down of term loans	13	**2,279,650**	-	**620,650**	-
Repayment of term loans	13	**(2,754,750)**	-	**(750,000)**	-
Other movement in minority interests		**3,935**	-	**1,071**	-
Net cash from financing activities		**2,635,001**	3,703,891	**717,397**	1,008,412
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**740,077**	(5,642,058)	**201,491**	(1,536,090)
Cash and cash equivalents at 1 January		**5,142,457**	10,802,761	**1,400,070**	2,941,128
Net changes in foreign currency translation reserve		**7,735**	(18,246)	**2,106**	(4,968)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27	**5,890,269**	5,142,457	**1,603,667**	1,400,070
Operating cash flows from interest and Islamic financing					
Interest and Islamic financing income received		**6,548,279**	4,725,691	**1,782,815**	1,286,603
Interest and Islamic financing expense paid		**2,754,954**	2,371,052	**750,056**	645,536

The attached notes 1 to 34 form part of these consolidated financial statements.

	Share capital AED 000	Capital notes AED 000	Treasury shares AED 000	Legal reserve AED 000	Special reserve AED 000	General reserve AED 000	Revaluation reserve AED 000	Reserve for bonus issue AED 000	Cash dividends AED 000	Retained earnings AED 000	Cumulative changes in fair values AED 000	Foreign currency translation reserve AED 000	Mandatory convertible bonds AED 000	Total AED 000	Minority interests AED 000	Total equity AED 000
	Attributable to equity holders of the Bank															
At 1 January 2008	1,250,000	-	-	5,305,110	546,123	120,000	70,730	125,000	250,000	2,378,661	74,801			10,120,425	9	10,120,434
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	2,945,250	(107,317)	(18,246)	-	2,819,687	(8,047)	2,811,640
Transfer to special reserves	-	-	-	-	300,525	-	-	-	-	(300,525)	-	-	-	-	-	-
Transfer to dividends payable	-	-	-	-	-	-	-	-	(250,000)	-	-	-	-	(250,000)	-	(250,000)
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	382,407	382,407
Issuance of mandatory convertible bonds (note 20)	-	-	-	-	-	-	-	-	-	-	-	-	3,600,000	3,600,000	-	3,600,000
Net purchase of treasury shares (note 17)	-	-	(44,871)	-	-	-	-	-	-	-	-	-	-	(44,871)	-	(44,871)
Proposed cash dividends (note 19)	-	-	-	-	-	-	-	-	477,400	(477,400)	-	-	-	-	-	-
Bonus shares issued	125,000	-	-	-	-	-	-	(125,000)	-	-	-	-	-	-	-	-
As of 31 December 2008	1,375,000	-	(44,871)	5,305,110	846,648	120,000	70,730	-	477,400	4,545,986	(32,516)	(18,246)	3,600,000	16,245,241	374,369	16,619,610
At 1 January 2009	1,375,000	-	(44,871)	5,305,110	846,648	120,000	70,730	-	477,400	4,545,986	(32,516)	(18,246)	3,600,000	16,245,241	374,369	16,619,610
Total comprehensive income for the year	-	-	-	-	-	-	16,824	-	-	3,244,335	(82,472)	3,738	-	3,182,425	6,627	3,189,052
Transfer to dividends payable	-	-	-	-	-	-	-	-	(476,076)	-	-	-	-	(476,076)	-	(476,076)
Transfer of dividends payable on treasury shares	-	-	-	-	-	-	-	-	(1,324)	1,324	-	-	-	-	-	-
Interest on mandatory convertible bonds (note 20)	-	-	-	-	-	-	-	-	-	(159,791)	-	-	-	(159,791)	-	(159,791)
Interest on capital notes (note 18)	-	-	-	-	-	-	-	-	-	(120,000)	-	-	-	(120,000)	-	(120,000)
Net purchase of treasury shares (note 17)	-	-	(153,962)	-	-	-	-	-	-	-	-	-	-	(153,962)	-	(153,962)
Proposed cash dividends (note 19)	-	-	-	-	-	-	-	-	677,000	(677,000)	-	-	-	-	-	-
Other movements in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,935	3,935
Issuance of capital notes (note 18)	-	4,000,000	-	-	-	-	-	-	-	-	-	-	-	4,000,000	-	4,000,000
As of 31 December 2009	1,375,000	4,000,000	(198,833)	5,305,110	846,648	120,000	87,554	-	677,000	6,834,854	(114,988)	(14,508)	3,600,000	22,517,837	384,931	22,902,768

The attached notes 1 to 34 form part of these consolidated financial statements.

1 ACTIVITIES

First Gulf Bank PJSC ("the Bank") is a public joint stock company with limited liability incorporated in Abu Dhabi in accordance with U.A.E. Federal Law No. (8) of 1984 (as amended). The Bank carries on commercial, investment and retail Banking through its Head Office and branches in Abu Dhabi and its other branches in Dubai, Ajman, Sharjah, Fujairah, Al Ain and Ras Al Khaimah. The representative office of the Bank has commenced operations in Singapore from June 2007 and was upgraded to a wholesale Bank in August 2009. Under an agreement signed with the Economic and Social Development Fund of Libya, a commercial Bank (First Gulf Libyan Bank) was established in Libya which commenced activities in November 2008. The First Gulf Libyan Bank which is being managed by the Bank, has a paid up capital of US$ 200 million which has been contributed equally by both parties. The Bank has obtained approval to open a representative office in Qatar in November 2009 and has established a representative office in India in September 2009.

The principal activities of the Bank are described in Note 31.

The registered Head Office of the Bank is at PO Box 6316, Abu Dhabi, United Arab Emirates (U.A.E.).

The consolidated financial statements of the Bank were authorised for issue by the Board of Directors on 27 January 2010.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the Laws in the U.A.E.

The consolidated financial statements have been prepared under the historical cost convention except for investment securities (other than held to maturity investments), derivative financial instruments, investment properties and land included in property and equipment which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements of the Bank are prepared in United Arab Emirates Dirhams (AED) which is the functional currency of the Bank. The consolidated balance sheet, consolidated income statement and consolidated statement of cash flows in US Dollar (US$) are presented solely for the convenience of the readers of the consolidated financial statements. The AED amounts have been translated at the rate of AED 3.673 to US$1 (2008: AED 3.673 to US$ 1).

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

Amendments to IAS 40 – Investment Property

Under the revised IAS 40, properties under construction are treated as investment properties. Previously they were treated as property and equipment under IAS 16. The IASB allowed that entities may apply amendments to IAS 40 prospectively for annual periods beginning on or after 1 January 2009. Upon adoption of IAS 40 (revised), properties under construction with a carrying value of AED 1,150 million as of 1 January 2009 were reclassified from property and equipment to investment properties.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Changes in accounting policies *continued*

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 33. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 32.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Bank's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. Disclosures relating to analysis of the operating segments are set out in Note 31.

Amendments to IAS 1 – Presentation of Financial Statements

The standard replaces IAS 1 *Presentation of Financial Statements* (revised in 2003) as amended in 2005. The revised IAS 1 was issued in September 2007 and is effective for accounting periods beginning on or after 1 January 2009.

The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented in a single line. In addition, the Standard introduces the statement of comprehensive income, which presents income and expense items recognised in profit or loss, together with all other items of recognised income and expense.

The changes introduced by the revision are presentational in nature, and will not have an impact on the results of the Bank.

Other new or amended IFRS and IFRIC interpretations applicable to the year ended 31 December 2009 do not have any significant impact on the financial statements and are summarised as follows:

- *IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009*
- *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 including consequential amendments to IAS 21, IAS 28, IAS 31 and IAS 39*
- *IAS 23 Borrowing Costs (Revised) effective 1 January 2009*
- *IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on liquidation effective 1 January 2009*
- *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009*
- *IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and measurement effective for periods ending on or after 30 June 2009*
- *IFRIC 13 Customer Loyalty Programmes effective 1 July 2008*
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008*
- *IFRIC 18 Transfers of Assets from Customers effective 1 July 2009*

Future changes in accounting policies

The following IASB Standard and amendments have been issued but are not yet mandatory, and have not yet been adopted by the Bank:

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

- *IFRS 9 Financial Instruments*
  The Bank has not adopted the IFRS 9 "Financial Instruments", applicable for year ending 31 December 2013. This standard will replace IAS 39 in entirety. IFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39 'Financial Instruments: Recognition and Measurement'. It applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria.
- IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRIC 17 Distributions of Non-cash Assets to Owners

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	Country of incorporation	Percentage of holding	
			2009	2008
Mismak Properties Co. LLC (Mismak)	Real estate investments	United Arab Emirates	**100%**	100%
Radman Properties Co. LLC (Subsidiary of Mismak)	Real estate investments	United Arab Emirates	**80%**	80%
First Merchant International LLC	Merchant Banking services	United Arab Emirates	**100%**	100%
First Gulf Libyan Bank	Banking services	Libya	**50%**	50%

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of the profit and net assets in subsidiaries not held by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the Bank shareholders' equity.

Due from banks

Due from banks are stated at amortised cost using the effective interest rate less any amounts written off and provision for impairment.

Trading investments

These are initially recognised at cost, being the fair value of the consideration given and subsequently remeasured at fair value. All related realised and unrealised gains or losses are included in the income statement.

Non-trading investments

These are classified as follows:

- Held to maturity
- Available for sale
- Investments carried at fair value through income statement
- Investments carried at amortised cost

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges (except for investments carried at fair value through the income statement) associated with the investment. Premiums and discounts on non-trading investments (excluding those carried at fair value through income statement) are amortised using the effective interest rate method and taken to interest income.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Non-trading investments *continued*

Held to maturity
Investments which have fixed or determinable payments and are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value.

Available for sale
After initial recognition, investments which are classified "available for sale" are remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the consolidated income statement.

Investments carried at fair value through income statement
Investments are classified as fair value through income statement if the fair value of the investment can be reliably measured and the classification as fair value through income statement is as per the documented strategy of the Bank. Investments classified as "Investments at fair value through income statement" upon initial recognition are remeasured at fair value with all changes in fair value being recorded in the consolidated income statement.

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

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Bank has incurred obligations on its behalf.

The Bank's share of the result of operations of associates is included in the consolidated income statement. Unrealised profits and losses from transactions between the Bank and an associate are eliminated to the extent of the Bank's interest in the associate. The reporting dates of associates and the Bank are identical and the associates' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Repurchase and reverse repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date ("Repo") are not derecognised. The counterparty liability for amounts received under these agreements is included in due to banks or customers' deposits in the balance sheet, as appropriate. The difference between the sale and repurchase price is treated as interest expense which is accrued over the life of the Repo agreement.

Conversely, securities purchased under agreements to resell at a specified future date ("Reverse Repos") are not recognised on the balance sheet. The corresponding cash paid, including accrued interest, is included in loans and advances. The difference between the purchase price and resale prices is treated as interest income which is accrued over the life of the Reverse Repos.

Loans and advances
These are stated at cost, adjusted for effective hedges and stated net of interest suspended less any amounts written off and provision for impairment. Impaired loans are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

Islamic financing
Islamic financing comprise principally of floating profit-rate Ijara and Murabaha contracts which are stated at cost less any provisions for impairment.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement.

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.

(b) for assets carried at fair value, impairment is the difference between cost and fair value.

(c) for assets carried at cost, impairment is based on the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments, reversals of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a provision is made to cover collective impairment for specific groups of assets carried at amortised cost, where there is a measurable decrease in estimated future cash flows.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the Bank receives non-monetary grants with no conditions attached thereto, the asset and grant are recorded at fair value and the grant is recognised in the consolidated income statement in the period in which it is received. In the case of other non-monetary grants, the grant is set up as deferred income at its fair value and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual installments.

Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

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

Property and equipment
Property and equipment are initially recorded at cost. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount and, where carrying values exceed the recoverable amount, assets are written down. Land is measured at fair value based on valuations performed by independent professional valuers. Valuations are performed frequently to ensure that the fair value of revalued land does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Property and equipment *continued*
Depreciation is provided on a straight-line basis on all property and equipment, other than freehold land which is determined to have an indefinite life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20 years
Motor vehicles	3 years
Furniture, fixtures and equipment	4 years
Computer hardware and software	4 years

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

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

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

Treasury shares
Own equity instruments which are acquired (treasury shares) are deducted from the equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

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

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Revenue recognition *continued*
ii. Fee and commission income
The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

iii. Dividend income
Revenue is recognised when the Bank's right to receive the payment is established.

iv. Net trading income
Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

v. Rental income
Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement in 'Other operating income'.

vi. Income from Islamic financing
Income from Islamic financing is recognised on a time-proportion basis based on principal amounts outstanding.

Foreign currencies
Monetary assets and liabilities in foreign currencies are translated into AED at rates of exchange prevailing at the balance sheet date. Any gains and losses are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of foreign operations are translated into the Bank's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in the equity relating to a particular foreign operation is recognised in the consolidated income statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with U.A.E. Central Bank and due from Banks and other financial institutions with original maturities of less than three months.

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

With respect to its U.A.E. national employees, the Bank makes contributions to the relevant government pension scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Leases

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

Derivatives

The Bank enters into derivative financial instruments including forwards, swaps, futures, options and swaptions in the foreign exchange and capital markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet.

Hedges

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the income statement. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated income statement.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the consolidated income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the income statement in the period in which the hedged transaction impacts the consolidated income statement or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken to the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, in the case of a cash flow hedge, any cumulative gains or losses on the hedging instrument initially recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gains or losses initially recognised in equity are transferred to the consolidated income statement. In the case of a fair value hedge, for hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Trade and settlement date accounting

Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial guarantees

Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments for a third party if the latter does not do so. Financial guarantees are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on loans and advances. If a specific provision is required for financial guarantees, the related unearned commissions recognised under other liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

De-recognition of financial assets and liabilities

The Bank de-recognises all or part of a financial asset when the contractual rights to the cash flows on the asset expire or when the Bank has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to the ownership of the asset. The Bank derecognises all or part of a financial liability when the liability is extinguished in full or in part.

Fair values

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

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

The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities. For other derivatives without quoted prices in an active market, fair value is determined based on quotations received from counter party financial institutions or established third party valuation models.

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

Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Classification of investment properties under construction

Management decides on acquisition of a property whether it should be classified as investment property, property and equipment or as properties held for sale.

Properties acquired by the Bank are recorded as investment properties if these were acquired for rental purposes or capital appreciation.

Properties held for own use is recorded as property and equipment.

Properties are recorded as held for sale if their carrying amounts will be recovered through a sale transaction.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Significant accounting judgements and estimates *continued*

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through income statement, or available for sale.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Bank has the intention and ability to hold these to maturity.

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

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement.

All other investments are classified as available for sale.

Impairment of investments

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

Impairment losses on loans and advances

The Bank reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for loans and advances and is adjusted to reflect current economic changes.

3 CASH AND BALANCES WITH U.A.E. CENTRAL BANK

	2009 ***AED 000***	*2008* *AED 000*
Cash on hand	**236,623**	237,847
Balances with U.A.E. Central Bank	**5,310,347**	4,767,198
	5,546,970	5,005,045

Balances with U.A.E. Central Bank include AED 1,934,150 thousand (2008: AED 1,855,876 thousand) representing mandatory cash reserve deposits and AED 3,200,000 thousand (2008: AED 2,700,000 thousand) representing certificates of deposit. These are not available for use in the Bank's day-to-day operations.

4 LOANS AND ADVANCES

The composition of loans and advances portfolio is as follows:

	2009 ***AED 000***	*2008* *AED 000*
Economic Sector		
Agriculture	**237,937**	120,566
Energy	**438,106**	633,567
Trading	**3,635,260**	4,545,107
Construction	**5,720,128**	5,021,054
Transport	**785,054**	500,357
Personal – Retail loans and credit cards	**19,567,061**	15,880,750
Personal – Retail mortgages	**1,847,756**	1,510,343
Personal – Retail mortgages National Housing Loan (note 12)	**6,416,092**	2,556,314
Personal – Others	**7,657,352**	10,232,807
Government	**340,165**	496,383
Share financing	**4,310,895**	5,289,226
Real estate	**17,878,232**	13,545,100
Services	**15,050,687**	12,562,196
Public sector	**6,360,774**	5,067,724
Manufacturing	**2,670,168**	2,542,293
Total	**92,915,667**	80,503,787
Less provision for impaired loans and advances	**(2,529,782)**	(1,140,791)
Total	**90,385,885**	79,362,996
Representing:		
Conventional loans and advances	**84,884,283**	74,549,324
Islamic financing	**5,501,602**	4,813,672
Total	**90,385,885**	79,362,996

Loans and advances include an amount of AED 55,095 thousand (2008: AED 722,527 thousand) being amounts lent against the purchase of debt securities under reverse repurchase agreements with arrangements to resell them at a fixed future date.

Loans and advances to customers are stated net of provision for impairment. The movements in the provision during the year were as follows:

	2009 ***AED 000***	*2008* *AED 000*
At 1 January	**1,140,791**	653,790
Amounts written off	**(289,865)**	(73,479)
Recoveries (Note 25)	**(21,572)**	(26,132)
Charge for the year (Note 25)	**1,702,038**	592,482
Notional interest on impaired loans and advances (Note 21)	**(1,610)**	(5,870)
At 31 December	**2,529,782**	1,140,791

At 31 December 2009, the balances in accounts classified as impaired amounted to AED 1,450,813 thousand (2008: AED 489,876 thousand).

In certain cases, the Bank continues to carry classified doubtful debts and delinquent accounts on its books even after making 100% allowance for impairment. Where appropriate, interest is recorded and suspended on these accounts for legal considerations. Interest income on impaired loans is recognised in accordance with IAS 39: Financial Instruments: Recognition and Measurement. The notional interest on impaired loans and advances charged during the year amounted to AED 1,610 thousand (2008: AED 5,870 thousand).

5 NON-TRADING INVESTMENTS

	2009 AED 000	2008 AED 000
Carried at fair value through income statement		
Investments in managed funds	**203,374**	520,508
Investments in equities - Quoted	**214,928**	240,431
Available for sale investments		
Investments in equities - Quoted	**-**	5,738
- Unquoted	**125,759**	120,162
Investments in private equity funds	**1,022,968**	1,134,777
Debt securities	**771,912**	25,069
Held to maturity investments		
Debt securities - Quoted	**7,562,710**	3,660,278
- Unquoted	**3,580,327**	4,272,613
Total	**13,481,978**	9,979,576
Analysis of debt securities:		
Fixed rate	**9,063,273**	4,208,322
Floating rate	**2,851,676**	3,749,638
	11,914,949	7,957,960
Geographic analysis of investments is as follows:		
Within U.A.E.	**3,686,093**	2,694,876
Outside U.A.E.	**9,795,885**	7,284,700
	13,481,978	9,979,576

Investments in managed funds represent investments made in managed hedge funds which invest in equities, debt securities and derivatives with the objective of generating superior returns on a risk-adjusted basis using a diversified portfolio approach.

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

Investments in equities amounting to AED 41,660 thousand (2008: AED 40,042 thousand) are held in the name of third parties with the beneficial interest assigned to the Bank.

Debt securities represent bonds with maturities ranging up to 10 years from the balance sheet date. Of the debt securities at 31 December 2009, 79% (2008: 71%) comprise bonds which are either guaranteed by governments or issued by entities owned by governments.

At 31 December 2009, the Bank's largest holding of debt securities issued by a single issuer accounted for 62% (2008: 46%) of total investments.

At 31 December 2009, debt securities with a carrying value of AED 7,823,490 thousand (2008: AED 4,554,520 thousand) were pledged under repurchase agreements with overseas financial institutions and banks with a principal value of AED 7,784,683 thousand (2008: AED 4,430,100 thousand).

The fair value of held to maturity investments at 31 December 2009 amounted to AED 10,899,123 thousand (2008: AED 7,904,786 thousand).

5 NON-TRADING INVESTMENTS *continued*

All unquoted available for sale equities are recorded at fair value except for investments amounting to AED 64,533 thousand (2008: AED 64,292 thousand) which are recorded at cost since their fair values cannot be reliably estimated. There is no active market for these investments and the Bank intends to hold them for the long term.

During the previous year, the Bank entered into an exchange agreement in respect of an investment it held in a quoted equity, whereby the rights and benefits to the investment were transferred to a third party in exchange for the payment of interest at the rate of EURIBOR plus 0.5% for the duration of the agreement of 5 years. Under the agreement, any appreciation or decline in value of the investment at maturity or termination of the agreement, if earlier, would be ceded to the third party. Accordingly, the investment in the quoted equity was de-recognised and the balance outstanding from the third party representing the value of the investment of Euro 260 million (equivalent to AED 1,406 million at the inception of the agreement) was recorded under other assets (Note 8). This is a non-cash flow transaction which has been excluded from the consolidated statement of cash flows.

6 INVESTMENT IN ASSOCIATES

The Bank has the following investments in associates

	Percentage of holding 2009	2008
First Gulf Financial Services LLC	**45%**	45%
Green Emirates Properties PJSC	**40%**	40%
Aseel Finance PJSC	**40%**	40%

First Gulf Financial Services LLC ("FGFS"), is a limited liability company which is incorporated in the Emirate of Abu Dhabi and provides equity brokerage services in the United Arab Emirates.

Green Emirates Properties PJSC is a private joint stock company incorporated in the Emirate of Abu Dhabi and engaged mainly in the management and brokerage of real estate properties in United Arab Emirates and overseas.

Aseel Finance PJSC is a private joint stock company which is incorporated in the Emirate of Abu Dhabi and provides Islamic financial services.

Summarised financial information on the investment in associates is set out below.

	2009 AED 000	2008 AED 000
Share of associates' balance sheet		
Assets	**1,162,189**	1,159,319
Liabilities	**600,734**	606,289
Net assets	**561,455**	553,030
Carrying amount of investment in associates	**561,455**	553,030
Share of associates' revenue and profit:		
Revenue	**65,346**	213,913
Profit for the year	**29,039**	156,943

As of 31 December 2009, the Bank's share of the contingent liabilities of associates amounted to AED 335,300 thousand (2008: AED 336,131 thousand).

7 INVESTMENT PROPERTIES

	2009 AED 000	2008 AED 000
Balance at 1 January	**3,991,341**	2,922,286
Additions	**638,444**	1,198,692
Disposals	**-**	(418,074)
Transferred from property and equipment	**1,149,568**	-
Gain from fair value adjustment (Note 23)	**221,030**	288,437
At 31 December	**6,000,383**	3,991,341

Investment properties are stated at fair value which represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. Investment properties have been valued as follows:

As of 31 December 2009, all investment properties were valued by independent professional valuers.

As of 31 December 2008, investment properties include properties with a carrying value of AED 2,996,839 thousand which were valued by independent professional valuers. For the balance of the investment properties, valuations were performed by management. Management considers various factors in determining fair value including the location of land plots, prevailing prices of land and valuations of similar plots carried out by independent professional valuers.

The fair value of the properties has been determined either based on transactions observable in the market or based on a valuation model.

Properties under construction for future use as investment properties were transferred from property and equipment to investment properties effective 1 January 2009 upon adoption of IAS 40 (revised) (note 2). This non-cash transaction has been excluded from the consolidated statement of cash flows.

The property rental income earned by the Bank from its investment properties, that are leased out under operating leases, amounted to AED 117,438 thousand (2008: AED 115,635 thousand).

8 OTHER ASSETS

	2009 AED 000	2008 AED 000
Interest receivable	**646,460**	706,376
Prepayments	**137,967**	187,073
Positive fair value of derivatives (Note 30)	**664,033**	595,055
Receivable under equity swaps (Note 5)	**1,657,805**	1,597,748
Receivable from sale of development properties	**261,408**	403,180
Receivable from sale of investment properties	**276,808**	-
Others	**586,121**	290,616
Total	**4,230,602**	3,780,048

Receivable under equity exchange include an interest bearing receivable arising from an equity exchange entered into by the Bank during the previous year as further discussed in Note 5.

During 2009, development properties which are held for sale with a carrying value of AED 154,512 thousand (Note 9) were reclassified from property and equipment to other assets. As of 31 December 2009, other assets include a development property which is held for sale with a carrying value of AED 53,952 thousand. The balance of development properties were sold during the year at a gain of AED 459,978 thousand (Note 23).

9 PROPERTY AND EQUIPMENT

	Land AED 000	Buildings AED 000	Capital work-in progress AED 000	Motor vehicles AED 000	Furniture fixtures & equipment AED 000	Computer hardware & software AED 000	Total AED 000
2009							
Cost or valuation:							
At 1 January 2009	**310,941**	**333,242**	**1,309,575**	**1,040**	**75,314**	**116,117**	**2,146,229**
Additions during the year	**3,481**	**19,876**	**8,614**	**617**	**26,855**	**25,052**	**84,495**
Revaluation adjustment	**(66,734)**	**-**	**-**	**-**	**-**	**-**	**(66,734)**
Transfer to investment properties (Note 7)	**-**	**-**	**(1,149,568)**	**-**	**-**	**-**	**(1,149,568)**
Transfer to other assets (Note 8)	**-**	**-**	**(154,512)**	**-**	**-**	**-**	**(154,512)**
Cost of disposals	**-**	**(22,607)**	**(6,799)**	**(199)**	**(3,689)**	**(401)**	**(33,695)**
At 31 December 2009	**247,688**	**330,511**	**7,310**	**1,458**	**98,480**	**140,768**	**826,215**
Depreciation:							
At 1 January 2009	**-**	**38,275**	**-**	**594**	**37,074**	**58,026**	**133,969**
Provided during the year	**-**	**18,059**	**-**	**294**	**18,722**	**24,349**	**61,424**
Disposals	**-**	**(5,105)**	**-**	**(199)**	**(2,208)**	**(387)**	**(7,899)**
At 31 December 2009	**-**	**51,229**	**-**	**689**	**53,588**	**81,988**	**187,494**
Net book value:							
At 31 December 2009	**247,688**	**279,282**	**7,310**	**769**	**44,892**	**58,780**	**638,721**
2008							
Cost or valuation:							
At 1 January 2008	135,173	140,731	1,201,741	865	53,391	89,463	1,621,364
Additions during the year	175,768	42,061	1,139,409	500	28,679	27,801	1,414,218
Transfers	-	150,450	(142,593)	-	(6,756)	(1,101)	-
Cost of disposals	-	-	(888,982)	(325)	-	(46)	(889,353)
At 31 December 2008	310,941	333,242	1,309,575	1,040	75,314	116,117	2,146,229
Depreciation:							
At 1 January 2008	-	19,480	-	623	33,911	41,501	95,515
Provided during the year	-	11,977	-	296	9,387	17,150	38,810
Transfers	-	6,818	-	-	(6,224)	(594)	-
Disposals	-	-	-	(325)	-	(31)	(356)
At 31 December 2008	-	38,275	-	594	37,074	58,026	133,969
Net book value:							
At 31 December 2008	310,941	294,967	1,309,575	446	38,240	58,091	2,012,260

During the year, the Bank revalued plots of land held for own use to their estimated fair value based on professional valuations performed by independent real estate valuers. The surplus on revaluation of certain plots of AED 16,824 thousand was transferred to the revaluation reserve which is not available for distribution. The decrease in carrying amounts of certain plots of land as a result of revaluation of AED 83,558 thousand was recorded in the income statement (Note 23).

10 DUE TO BANKS

	2009 AED 000	2008 AED 000
Current and demand deposits	**116,512**	235,906
Deposits maturing within one year	**1,824,055**	2,876,736
Total	**1,940,567**	3,112,642

As of 31 December 2009, deposits maturing within one year include a deposit of AED 398,491 thousand (2008: AED 870,325 thousand) from overseas banks held against the sale of debt securities with arrangements to repurchase them at a fixed future date.

11 DUE TO U.A.E. CENTRAL BANK

This represents short term advances obtained from the U.A.E. Central Bank. The advances were repaid during the year.

12 CUSTOMERS' DEPOSITS

	2009 AED 000	2008 AED 000
Current accounts	**5,769,838**	5,584,114
Saving accounts	**193,328**	136,341
Time deposits	**71,007,287**	59,628,002
Call and other deposits	**9,451,453**	8,614,202
Total	**86,421,906**	73,962,659

As of 31 December 2009, time deposits include deposits of AED 7,386,192 thousand (2008: AED 3,559,775 thousand) from overseas financial institutions held against the sale of debt securities with arrangements to repurchase them at a fixed future date.

In December 2006, the Bank received an amount of AED 5 billion from the Government of Abu Dhabi (the "Government") to fund an interest-free housing loans scheme for U.A.E. Nationals and is recorded in call and other deposits. The scheme is being administered by the Bank based on various terms and conditions agreed with the Government. As of 31 December 2009, the Government time deposit amounted to AED 6,873 million (2008: AED 5,644 million) and housing loans amounting to AED 6,416 million (2008: AED 2,579 million) were disbursed by the Bank. Interest is payable on this Government deposit at market rates based on the principal amount net of loan disbursements made.

As of 31 December 2009, the top 5 depositors accounted for 32% of total customer deposits (2008: 33%).

As further disclosed in Note 13, deposits of AED 4,510,087 thousand from the U.A.E. Federal Government were re-categorised as a loan as of 31 December 2009.

13 TERM LOANS

	2009 AED 000	2008 AED 000
Loan 1 – Syndicated loan	**-**	2,754,750
Loan 2 – Syndicated loan	**3,030,225**	3,030,225
Loan 3 – Bank loan	**550,950**	-
Loan 4 – Euro Medium Term Note	**1,728,700**	-
Loan 5 – Federal Government loan	**4,510,087**	-
	9,819,962	5,784,975

Loan 1:
During 2006, the Bank obtained a loan of US$ 750 million (equivalent of AED 2,755 million) from a syndicate comprising of several foreign and local Banks. The loan was repaid in full in March 2009.

Loan 2:
During 2007, the Bank obtained a loan of US$ 825 million (equivalent of AED 3,030 million) from a syndicate comprising of several foreign and local Banks. The loan is repayable in full in November 2012. The loan accrues interest at the rate of LIBOR plus a margin of 0.275% per annum plus mandatory cost calculated by the facility agent as weighted average of the lender's additional cost rates, which are payable quarterly. The loan is subject to various terms, covenants and conditions. Specifically, the Bank should ensure that its capital adequacy ratio shall not at any time be less than the Basel minimum capital requirements as implemented in the U.A.E. under the guidelines of the Central Bank.

Loan 3:
During the year, the Bank obtained a loan of US$150 million (equivalent of AED 551 million) from a foreign Bank. The loan is repayable in full in December 2011. The loan accrues interest at the rate of 2.85% per annum.

Loan 4:
During the year, the Bank issued a 3-year Euro Medium Term Note (EMTN) of US$ 500 million (equivalent of AED 1,837 million). The notes are due in November 2012 and carry a coupon rate of 4% per annum payable semi-annually in arrears. During the year, EMTN notes with a nominal value of US$ 28 million were repurchased by the Bank.

Loan 5:
As of 31 December 2008, customer deposits included deposits of AED 4,510,087 thousand placed by the U.A.E. Federal Government (the "Lender") for a period of 3-5 years. During the year these deposits were re-categorised as a subordinated loan. The loan is eligible as Tier 2 Capital for the purposes of calculation of capital adequacy ratio as per the Basel II guidelines implemented by the Central Bank of the U.A.E..

As per the terms, the loan is subordinated to all creditors other than junior creditors and the equity shareholders of the Bank. The loan bears a fixed interest rate of 4% per annum for first two years and steps up to 4.5% per annum and 5% per annum in the third and fourth years and from fifth year onwards at 5.25% p.a. Interest is payable on a quarterly basis. The loan matures on 31 December 2016.

The agreement contains certain conditions relating to the Bank's minimum Tier 1 Capital requirement and also stipulates that the Lender has the right at its sole discretion to convert the loan amount together with accrued interest into share capital in case of breach of agreement by the Bank.

The Bank has the option at any time during the option period to repay the loan in whole or in part subject to meeting certain conditions.

14 OTHER LIABILITIES

	2009 *AED 000*	*2008* *AED 000*
Interest payable	**367,571**	466,284
Accrued expenses	**150,396**	177,592
Provisions for staff benefits and other expenses (Note 15)	**219,352**	190,913
Accounts payable and sundry creditors	**1,427,805**	883,215
Advances received on sale of investment properties	**1,071,006**	929,864
Payable in respect of acquisition of investment properties	**239,872**	504,241
Negative fair value of derivatives (Note 30)	**718,584**	653,346
Others	**192,754**	36,367
Total	**4,387,340**	3,841,822

15 PROVISION FOR STAFF BENEFITS AND OTHER EXPENSES

The movement in the provision was as follows:

	2009 *AED 000*	*2008* *AED 000*
At 1 January	**190,913**	123,113
Arising during the year	**173,304**	194,246
Utilised	**(144,865)**	(126,446)
At 31 December	**219,352**	190,913

16 SHARE CAPITAL

	Issued and fully paid	
	2009 *AED 000*	*2008* *AED 000*
Ordinary shares of AED 1 each	**1,375,000**	1,375,000

17 TREASURY SHARES

During the previous year, the Bank received an approval from the Securities & Commodities Authority of the United Arab Emirates to buy back up to 137.5 million of its own shares. A total of 21 million shares were acquired as of 31 December 2009 (2008: 5 million shares).

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31 December 2009

18 CAPITAL NOTES

Following approval of the Extraordinary General Assembly meeting held on 25 February 2009, the Board of Directors resolved on 26 February 2009 to issue capital notes (the "Notes") to the Department of Finance, Government of Abu Dhabi amounting to AED 4 billion. The Notes are subject amongst other terms, to the following:

- The Notes have a par value of AED 10 million each;
- The Notes are perpetual securities in respect of which there is no fixed redemption date;
- The Notes constitute direct, unsecured and subordinated obligations of the Bank;
- The Notes holder is entitled to a non-cumulative semi-annual fixed interest coupon at the rate of 6% per annum until February 2014 and floating interest rate of EIBOR plus 2.3% per annum thereafter. The Bank may at its sole discretion elect not to make an interest coupon payment. Any interest payment made will be reflected in the statement of changes in equity. During the year, interest payments amounted to AED 120 million.

19 APPROPRIATIONS

Legal reserve

In accordance with the U.A.E. Commercial Companies Law No. 8 of 1984 (as amended) and the Articles of Association of the Bank, 10% of profit for the year of the Bank shall be transferred to the legal reserve until it reaches 50% of the nominal value of the paid up share capital. As of 31 December 2009, the legal reserve exceeded 50% of the share capital and accordingly, the Board of Directors has proposed that no transfers from the net profit are made to the legal reserve. The legal reserve is not available for distribution.

Special reserve

As required by Article 82 of Union Law No. 10 of 1980, 10% of the profit for the year shall be transferred to the special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. As of 31 December 2009, the special reserve exceeded 50% of the share capital and accordingly, the Board of Directors has proposed that no transfers from the net profit are made to the special reserves. The special reserve is not available for distribution.

General reserve

Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.
No transfers are proposed by the Board of Directors (2008: AED nil) from the profit for the year to the general reserve.

Dividends

	2009 *AED 000*	*2008* *AED 000*
Cash dividends proposed in respect of 2009:50 fils (2008: Declared 35 fils) based on outstanding share capital, other than treasury shares	**677,000**	477,400
Dividend on ordinary shares paid during the year	**460,081**	233,645

20 MANDATORY CONVERTIBLE BONDS

Following approval of the Extraordinary General Assembly meeting held on 25 February 2008, the Board of Directors resolved on 21 July 2008 to issue non-redeemable mandatory convertible bonds (the "Bonds") amounting to AED 3.6 billion. The Bonds are subject amongst other terms, to the following:

- The Bonds have a par value of AED 10 million each;
- These Bonds are subject to compulsory conversion into shares after 3 years from the date of their issuance, unless converted earlier;
- These Bonds would automatically be converted at a conversion price of AED 28.8 at the conversion date;
- The bond holders are entitled to non cumulative interest at the rate of 3 month EBOR plus 1% which is subject to the approval and declaration of the Board of Directors at each interest due date. Any interest payment made will be reflected in the statement of changes in equity.

During July 2008, the Bank signed agreements with the bondholders to issue the Bonds with a face value of AED 3.6 billion and collected the related bond proceeds. During the year, the Board of Directors resolved to pay the interest of AED 159,791 thousand in respect of the first year.

21 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2009	*2008*
	AED 000	*AED 000*
Interest income		
Loans and advances	**5,838,842**	4,182,260
Deposits with Banks	**85,130**	189,389
Income related to subscriptions to initial public offerings (IPOs)	**-**	23,392
Investment securities		
- Available for sale	**34,280**	2,210
- Held to maturity	**140,473**	258,166
Notional interest on impaired loans and advances (Note 4)	**1,610**	5,870
Total	**6,100,335**	4,661,287
Income from Islamic financing	**389,638**	295,898
Interest income and income from Islamic financing	**6,489,973**	4,957,185

22 INTEREST EXPENSE AND ISLAMIC FINANCING EXPENSE

	2009	*2008*
	AED 000	*AED 000*
Interest expense		
Customers' deposits	**2,344,503**	1,837,927
Interest expense related to IPO-related deposits	**-**	2,624
Bank deposits	**111,785**	305,367
Term loans	**44,718**	222,317
Total	**2,501,006**	2,368,235
Islamic financing expense	**155,235**	8,450
Interest expense and Islamic financing expense	**2,656,241**	2,376,685

23 OTHER OPERATING INCOME

	2009	*2008*
	AED 000	*AED 000*
Investment income:		
Gains on disposal of available for sale investments	**49,683**	21,755
Gains on disposal of investments carried at fair value through income statement	**28,582**	23,332
Change in fair value of investments carried at fair value through income statement	**(32,029)**	(307,521)
Other investment income	**10,009**	9,690
Total investment income (loss)	**56,245**	(252,744)
Commission income	**360,703**	273,088
Fee income	**529,324**	610,447
Fees and commissions on credit cards	**298,886**	203,108
Brokerage and fund management fee income	**18,487**	27,072
Foreign exchange income	**122,501**	104,058
Derivative income	**221,235**	214,745
Gain on revaluation of investment properties (Note 7)	**221,030**	288,437
Loss on revaluation of property and equipment (Note 9)	**(83,558)**	-
Gain on sale of investment properties (Note 7)	**-**	240,119
Gain on sale of development properties (Note 8)	**459,978**	-
(Loss) gain on sale of property and equipment	**(24,385)**	98,684
Rental income (Note 7)	**117,438**	115,635
Other income	**3,359**	38,357
Total	**2,301,243**	1,961,006

24 GENERAL AND ADMINISTRATIVE EXPENSES

	2009	*2008*
	AED 000	*AED 000*
Staff costs	**579,697**	559,502
Depreciation	**61,424**	38,810
Other general and administrative expenses	**439,462**	536,584
Total	**1,080,583**	1,134,896
Number of employees	**969**	989

25 PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES

	2009	*2008*
	AED 000	*AED 000*
Provision for impaired loans and advances (Note 4)	**1,702,038**	592,482
Recoveries (Note 4)	**(21,572)**	(26,132)
	1,680,466	566,350

26 BASIC AND DILUTED EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

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

	2009	*2008*
Profit for the year attributable to ordinary equity holders (AED 000)	**3,310,335**	3,005,250
Deduct: Interest on mandatory convertible bonds (AED 000)	**(138,162)**	(74,165)
Deduct: Interest on capital notes (AED 000)	**(120,000)**	-
Profit attributable to ordinary equity holders (AED 000)	**3,052,173**	2,931,085
Weighted average number of ordinary shares in issue (000's)	**1,482,148**	1,430,841
Basic and diluted earnings per share (AED)	**2.06**	2.05

Shares related to mandatory convertible bonds are included in the weighted average number of ordinary shares from the date the related bonds were issued. Treasury shares are excluded from the date they were purchased.

27 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2009 ***AED 000***	*2008* *AED 000*
Cash and balances with U.A.E. Central Bank	**5,546,970**	5,005,045
Due from Banks and financial institutions	**4,626,549**	2,837,412
	10,173,519	7,842,457
Less: Balances with U.A.E. Central Bank maturing after three months of placement	**3,200,000**	2,700,000
Less: Due from Banks and financial institutions maturing after three months of placement	**1,083,250**	-
Cash and cash equivalents	**5,890,269**	5,142,457

Geographic analysis of due from Banks and financial institutions is as follows:

	2009 ***AED 000***	*2008* *AED 000*
Within U.A.E	**1,038,250**	1,683,943
Outside U.A.E	**3,588,299**	1,153,469
	4,626,549	2,837,412

28 RELATED PARTY TRANSACTIONS

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

The following transactions have been entered into with related parties:

	2009 ***AED 000***	*2008* *AED 000*
Board members, key management personnel		
Loans and advances to customers	**13,178,541**	12,593,906
Customers' deposits	**4,007,450**	2,945,460
Commitments and contingent liabilities	**3,957,584**	5,401,661
Interest and commission income	**795,259**	584,734
Interest expense	**131,915**	142,754
Associates		
Loans and advances to customers	**701,163**	600,000
Customers' deposits	**305,141**	671,643
Commitments and contingent liabilities	**769,522**	771,568
Interest and commission income	**31,319**	25,570
Interest expense and Islamic financing expense	**4,508**	1,594
Compensation of key management personnel:		
Short term employee benefits	**74,628**	57,964
Post employment benefits	**11,621**	10,041

In addition to amounts disclosed above, Board of Directors remuneration amounting to AED 66,000 thousand (2008: AED 60,000 thousand) has been included in the consolidated statement of other comprehensive income and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

29 COMMITMENTS AND CONTINGENT LIABILITIES

The Bank has the following commitments and contingent liabilities at 31 December:

	2009	*2008*
	AED 000	*AED 000*
Contingent liabilities:		
Acceptances	**1,215,516**	1,731,160
Letters of credit	**13,885,093**	13,547,741
Guarantees	**40,954,811**	33,348,390
	56,055,420	48,627,291
Commitments:		
Commitments to extend credit maturing within one year	**13,117,474**	12,643,378
Commitments for future capital expenditure	**3,581,014**	5,525,779
Commitments for future private equity investments	**586,729**	643,881
	17,285,217	18,813,038
Total commitments and contingent liabilities	**73,340,637**	67,440,329

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

Letters of Credit, guarantees and acceptances commit the Bank to make payments on behalf of customers in the event of a specific act such as the export or import of goods or upon the failure of the customer to perform under the terms of a contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

Commitments to extend credit represent contractual irrevocable commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

30 DERIVATIVES

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

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30 DERIVATIVES *continued*

	Positive fair value	*Negative fair value*	*Notional amount Total*	***Notional amounts by term to maturity*** *Within 3 months*	*3-12 months*	*1-5 years*	*More than 5 years*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*
At 31 December 2009							
Derivatives held for trading:							
Forward foreign exchange contracts	**41,864**	**39,096**	**4,197,659**	**1,690,999**	**2,506,660**	**-**	**-**
Interest rate swaps, caps and collars	**468,431**	**481,811**	**28,752,573**	**-**	**497,527**	**6,739,413**	**21,515,633**
Credit default swaps	**-**	**6,486**	**173,460**	**-**	**-**	**173,460**	**-**
Cross currency interest rate swaps	**98,949**	**98,949**	**830,531**	**-**	**830,531**	**-**	**-**
Equity swaps	**43,018**	**43,018**	**635,454**	**203,636**	**-**	**431,818**	**-**
Swaptions	**5,615**	**6,746**	**3,360,795**	**2,846,575**	**-**	**514,220**	**-**
Options	**1,227**	**1,457**	**378,860**	**378,860**	**-**	**-**	**-**
Futures	**2,671**	**-**	**383,056**	**383,056**	**-**	**-**	**-**
	661,775	**677,563**	**38,712,388**	**5,503,126**	**3,834,718**	**7,858,911**	**21,515,633**
Derivatives held as a fair value hedge:							
Interest rate swaps	**2,258**	**41,021**	**657,143**	**-**	**-**	**257,143**	**400,000**
Total	**664,033**	**718,584**	**39,369,531**	**5,503,126**	**3,834,718**	**8,116,054**	**21,915,633**
At 31 December 2008							
Derivatives held for trading:							
Forward foreign exchange contracts	91,026	127,130	10,630,253	5,713,272	4,916,981	-	-
Interest rate swaps, caps and collars	150,602	126,085	26,199,225	1,377,782	-	3,893,952	20,927,491
Credit default swaps	-	-	298,460	-	125,000	173,460	-
Cross currency interest rate swaps	111,476	111,476	840,255	-	-	840,255	-
Equity swaps	168,612	168,612	912,229	26,923	363,555	521,751	-
Options	54,211	54,211	316,424	26,674	289,750	-	-
Futures	13,286	945	272,643	272,643	-	-	-
	589,213	588,459	39,469,489	7,417,294	5,695,286	5,429,418	20,927,491
Derivatives held as a fair value hedge:							
Interest rate swaps	5,842	64,887	815,495	180,739	34,756	200,000	400,000
Total	595,055	653,346	40,284,984	7,598,033	5,730,042	5,629,418	21,327,491

Derivative product types

In the ordinary course of business the Bank enters into various types of transactions that involve financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments, which the Bank enters into, include forwards, options and swaps, futures and swaptions.

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

30 DERIVATIVES *continued*

Derivative product types *continued*

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies.

Credit default swaps transfer the credit exposure of debt securities between parties. The buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. Accordingly, the risk of default is transferred from the holder of the debt security to the seller of the swap.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with a number of financial institutions of good credit rating.

Derivatives held for trading purposes

Most of the Bank's derivative trading activities relate to offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks and manage their market positions with the expectation of making profit from favourable movements in prices or rates.

Derivatives held for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to interest rate risks.

The total gain on interest rate swaps held as fair value hedges amounted to AED 20,282 thousand (2008: loss of AED 62,336 thousand). A corresponding gain / loss has been adjusted against the carrying value of the related hedged asset.

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31 December 2009

31 SEGMENTAL INFORMATION

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

Operating segment information

For management purposes the Bank is organised into five operating segments:

Corporate Banking – Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers and high net worth individuals.

Treasury, including Investment operations – Principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and deposits with other Banks.

Retail Banking – Principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and funds transfer facilities.

Real Estate activities – Principally the acquisition, leasing, brokerage, management and resale of properties carried out through its subsidiaries and associate companies.

Other operations comprising mainly the Head Office including unallocated costs, subsidiaries and associates other than above categories.

Operating segmental information for the year ended 31 December 2009 was as follows:

	Corporate Banking AED 000	*Treasury AED 000*	*Retail Banking AED 000*	*Real Estate AED 000*	*Other Operations AED 000*	*Total AED 000*
Assets	63,406,123	22,012,894	27,052,053	7,065,561	5,935,912	125,472,543
Liabilities	72,355,198	9,330,598	11,116,360	1,389,789	8,377,830	102,569,775
Operating income excluding associates	2,126,579	754,909	2,405,484	797,808	50,195	6,134,975
Net interest income and income from Islamic financing	1,586,487	430,034	1,715,093	-	102,118	3,833,732
Share of profits of associates	-	-	-	57,566	(28,527)	29,039
Provision for impairment of loans and advances	(886,230)	-	(614,236)	-	(180,000)	(1,680,466)
Impairment of available for sale investments	-	(90,000)	-	-	-	(90,000)
Profit attributable to equity holders of the Bank	938,977	609,312	1,295,290	842,435	(375,679)	3,310,335
Other segment information						
Investment in associates	-	-	-	324,237	237,218	561,455
Capital expenditure	-	-	-	638,515	84,424	722,939
Depreciation	-	-	-	324	61,100	61,424

31 SEGMENTAL INFORMATION *continued*

Operating segment information for the year ended 31 December 2008 was as follows:

	Corporate Banking AED 000	*Treasury AED 000*	*Retail Banking AED 000*	*Real Estate AED 000*	*Other Operations AED 000*	*Total AED 000*
Assets	59,220,532	18,483,131	19,481,367	5,830,671	4,506,007	107,521,708
Liabilities	67,526,484	10,872,417	8,626,025	1,502,580	2,374,592	90,902,098
Operating income excluding associates	1,478,822	436,901	1,865,725	755,534	4,524	4,541,506
Net interest income and income from Islamic financing	1,006,279	474,096	1,167,857	-	(67,732)	2,580,500
Share of profits of associates	-	-	-	116,790	40,153	156,943
Provision for impairment of loans and advances	(275,114)	(6,336)	(284,900)	-	-	(566,350)
Profit attributable to equity holders of the Bank	953,672	376,265	1,044,943	863,209	(232,839)	3,005,250
Other segment information						
Investment in associates	-	-	-	272,665	280,365	553,030
Capital expenditure	-	-	-	2,269,359	343,551	2,612,910
Depreciation	-	-	-	104	38,706	38,810

32 RISK MANAGEMENT

32.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

Risk management structure

In line with the best practice followed in world-class financial institutions the overall risk management responsibility lies with the Board of Directors of the Bank under which there is a Risk and Compliance Committee (RCMC) comprising of three board members and the Chief Risk Officer who take the responsibility for identifying and controlling the risks.

Board of Directors

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

Audit Committee

The Audit Committee comprises three independent members who represent the Board of Directors of the Bank. The committee has the overall responsibility of assessing the internal audit findings, directing implementation of audit recommendations and overseeing the internal audit activities undertaken within the internal control environment and regulatory compliance framework of the Bank. Duties and responsibilities of the Audit Committee are governed by a formally approved Audit Committee Charter which is in line with best practice and control governance.

32 RISK MANAGEMENT *continued*

32.1 Introduction *continued*

Risk & Compliance Management Committee (RCMC)

The objective of RCMC is to assist the Board of Directors in fulfilling its corporate governance and oversight responsibilities by establishing, monitoring and reviewing internal control, compliance and risk management processes and systems within the Bank.

Asset Liability Committee

Asset Liability Management (ALM) process is an act of planning, acquiring, and directing the flow of funds through an organisation. The ultimate objective of this process is to generate adequate and stable earnings and to steadily build an organization's equity over time, while taking measured business risks. The Bank has a well defined ALM policy duly describing the objective, role and function of Asset Liability Committee (ALCO). This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions to manage balance sheet related risks. The ALCO consisting of the Bank's senior management including the Managing Director (MD) and Chief Executive Officer (CEO) meets at least once a month.

Credit Committee

All the business proposals of clients are approved through a committee empowered by the Executive Committee of the Bank through the CEO. The Bank has a Credit Committee which approves all the funded and non funded limits. The committee consists of senior management personnel including the CEO. The approval process and the authorities vested with the committee members are well defined in a credit policy manual. The policy manual enumerates various procedures to be followed by a relationship manager in bringing a relationship to the Bank. Various aspects of the credit approval process have been defined in the policy which enables efficient approval of the proposals.

Investment and Management Committee

Investment and Management Committee (IMCO) is a management level committee with representations from investment, financial control and risk management functions. This committee is entrusted with the responsibility of approving limits for investments and in approving individual investment proposals within those limits. It ensures that the investment decisions conform to the guidelines laid down in the investment policy of the Bank and are within overall limits prescribed by the Board of Directors. The committee meets to discuss new proposals for investments as well as analyse the performance of existing investments. The committee also sets guidelines for investments.

Risk Management Unit (RMU)

RMU is an independent unit reporting to the CEO and the RCMC. RMU is responsible for identifying, measuring, monitoring and controlling the risks arising out of various activities in the Bank by the different business units. The process is through partnering with the units in identifying and addressing the risks by setting limits and reporting on the utilisation thereof.

RMU also monitors compliance with the regulatory procedures and anti-money laundering monitoring procedures of the Bank.

Bank Treasury

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

Internal Audit

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

32 RISK MANAGEMENT *continued*

32.1 Introduction *continued*

Risk measurement and reporting systems

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the RCMC, and the head of each business division. The report includes aggregate credit exposure, limit exceptions and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis. RCMC receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the RMU. The effectiveness of all the hedge relationships is monitored by the RMU monthly. In situations of ineffectiveness, the Bank will enter into a new hedge relationship to mitigate risk on a continuous basis.

The Bank actively uses collateral to reduce its credit risks.

Risk concentration

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

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific industries or businesses.

Details of the composition of the loans and advances portfolio are provided in Note 4. Information on credit risk relating to investments is provided in Note 5.

32 RISK MANAGEMENT *continued*

32.2 Credit risk

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

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

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risks

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

32 RISK MANAGEMENT *continued*

32.2 Credit risk *continued*

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

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

	Notes	***Gross maximum exposure 2009 AED 000***	*Gross maximum exposure 2008 AED 000*
Balances with U.A.E. Central Bank	3	**5,310,347**	4,767,198
Due from Banks and financial institutions	27	**4,626,549**	2,837,412
Loans and advances	4	**90,385,885**	79,362,996
Non-trading investments	5	**11,914,949**	7,957,960
Other assets	8	**4,092,635**	3,592,975
Total		**116,330,365**	98,518,541
Contingent liabilities	29	**56,055,420**	48,627,291
Commitments	29	**13,117,474**	12,643,378
Total		**69,172,894**	61,270,669
Total credit risk exposure		**185,503,259**	159,789,210

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

Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The funded and non-funded credit exposure to the top 5 borrowers as of 31 December 2009 was AED 18,855,094 thousand (2008: AED 16,362,564 thousand) before taking account of collateral or other credit enhancements and AED 9,328,980 thousand (2008: AED 7,525,611 thousand) net of such protection.

32 RISK MANAGEMENT *continued*

32.2 Credit risk *continued*

Credit risk concentration *continued*

The distribution of the Bank's financial assets by geographic region and industry sector is as follows:

	2009 AED 000	*2008 AED 000*
Geographic region		
U.A.E.	**100,782,613**	88,201,799
Other Arab countries	**3,063,536**	1,313,847
Europe	**3,899,769**	4,200,910
U.S.A.	**7,961,941**	4,313,673
Rest of the world	**622,506**	488,312
Financial assets subject to credit risk	**116,330,365**	98,518,541
Other assets	**9,142,178**	9,003,167
Total assets	**125,472,543**	107,521,708
Industry sector		
Commercial and business	**62,643,622**	57,881,595
Personal	**27,051,409**	19,481,367
Government	**14,823,540**	11,793,197
Banks and financial institutions	**9,552,316**	7,551,756
Others	**2,259,478**	1,810,626
Financial assets subject to credit risk	**116,330,365**	98,518,541
Other assets	**9,142,178**	9,003,167
Total assets	**125,472,543**	107,521,708

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:
- For repurchase and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory, trade receivables and securities;
- For personal lending, assignment of salaries in favour of the Bank.

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

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

It is the Bank's policy to dispose of repossessed assets, other than investment properties, in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

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

32 RISK MANAGEMENT *continued*

32.2 Credit risk *continued*

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset, based on the Bank's credit rating system. The amounts presented are gross of impairment provisions.

	Neither past due nor impaired				
	Pass grade	*Watch grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
	2009	*2009*	*2009*	*2009*	*2009*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*
Cash and balances with U.A.E. Central Bank	5,310,347	-	-	-	5,310,347
Due from Banks and financial institutions	4,626,549	-	-	-	4,626,549
Loans and advances	86,609,755	1,197,455	235,417	4,873,040	92,915,667
Other assets	4,092,635	-	-	-	4,092,635
Non-trading investments	11,914,949	-	-	-	11,914,949
Total	**112,554,235**	**1,197,455**	**235,417**	**4,873,040**	**118,860,147**

	Neither past due nor impaired				
	Pass grade	*Watch grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
	2008	*2008*	*2008*	*2008*	*2008*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*
Cash and balances with U.A.E. Central Bank	4,767,198	-	-	-	4,767,198
Due from Banks and financial institutions	2,837,412	-	-	-	2,837,412
Loans and advances	76,995,137	826,538	1,498	2,680,614	80,503,787
Other assets	3,592,975	-	-	-	3,592,975
Non-trading investments	7,957,960	-	-	-	7,957,960
Total	96,150,682	826,538	1,498	2,680,614	99,659,332

32 RISK MANAGEMENT *continued*

32.2 Credit risk *continued*

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

Aging analysis of past due but not impaired loans

	Less than 30 days 2009 AED 000	*31 to 60 days 2009 AED 000*	*61 to 90 days 2009 AED 000*	*More than 91 days 2009 AED 000*	*Total 2009 AED 000*
Past due but not impaired loans and advances	1,048,595	460,690	265,936	1,647,006	3,422,227
Impaired loans (Note 4)					1,450,813
Total past due and impaired loans					**4,873,040**

	Less than 30 days 2008 AED 000	31 to 60 days 2008 AED 000	61 to 90 days 2008 AED 000	More than 91 days 2008 AED 000	Total 2008 AED 000
Past due but not impaired loans and advances	995,827	329,886	203,699	661,326	2,190,738
Impaired loans (Note 4)					489,876
Total past due and impaired loans					2,680,614

See Note 4 for more detailed information with respect to the provision for impairment losses on loans and advances.

Renegotiated loans

The total carrying amount of loans and advances whose terms have been renegotiated as of 31 December 2009 amounted to AED 2,455,742 thousand (2008: AED 836,329 thousand).

32 RISK MANAGEMENT *continued*

32.3 Liquidity risk and funding management

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

Analysis of financial assets and financial liabilities by remaining contractual maturities

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

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
ASSETS					
Cash and balances with U.A.E. Central Bank	2,346,970	3,200,000	-	-	5,546,970
Due from banks and financial institutions	4,626,549	-	-	-	4,626,549
Loans and advances, net	27,079,486	9,670,901	23,890,298	29,745,200	90,385,885
Non-trading investments	7,773,597	1,149,349	1,626,391	2,932,641	13,481,978
Other assets	4,230,602	-	-	-	4,230,602
Financial assets	**46,057,204**	**14,020,250**	**25,516,689**	**32,677,841**	**118,271,984**
Non-financial assets					**7,200,559**
Total assets					**125,472,543**
LIABILITIES					
Due to banks	1,390,567	550,000	-	-	1,940,567
Due to U.A.E. Central Bank	-				-
Customers' deposits	68,981,077	8,362,910	2,205,032	6,872,887	86,421,906
Term loans	-	-	5,309,875	4,510,087	9,819,962
Other liabilities	4,387,340	-	-	-	4,387,340
Total liabilities	**74,758,984**	**8,912,910**	**7,514,907**	**11,382,974**	**102,569,775**

The maturity profile of the financial assets and liabilities at 31 December 2008 was as follows:

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
ASSETS					
Cash and balances with U.A.E. Central Bank	5,005,045	-	-	-	5,005,045
Due from banks and financial institutions	2,837,412	-	-	-	2,837,412
Loans and advances, net	30,539,831	9,678,325	18,084,996	21,059,844	79,362,996
Non-trading investments	3,660,278	643,724	811,977	4,863,597	9,979,576
Other assets	3,780,048	-	-	-	3,780,048
Financial assets	45,822,614	10,322,049	18,896,973	25,923,441	100,965,077
Non-financial assets					6,556,631
Total assets					107,521,708
LIABILITIES					
Due to banks	3,012,642	100,000	-	-	3,112,642
Due to U.A.E. Central Bank	4,200,000	-	-	-	4,200,000
Customers' deposits	55,928,914	5,943,977	4,522,136	7,567,632	73,962,659
Term loans	2,754,750	-	3,030,225	-	5,784,975
Other liabilities	3,841,822	-	-	-	3,841,822
Total liabilities	69,738,128	6,043,977	7,552,361	7,567,632	90,902,098

32 RISK MANAGEMENT *continued*

32.3 Liquidity risk and funding management *continued*

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

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2009					
LIABILITIES					
Due to banks	1,401,802	568,028	-	-	1,969,830
Due to U.A.E. Central Bank	-	-	-	-	-
Customers' deposits	69,355,260	8,773,350	2,244,620	6,877,207	87,250,437
Term loans	52,876	227,965	6,339,834	4,983,646	11,604,321
Other liabilities	4,387,340	-	-	-	4,387,340
Total liabilities	**75,197,278**	**9,569,343**	**8,584,454**	**11,860,853**	**105,211,928**
2008					
LIABILITIES					
Due to banks	3,013,510	100,776	-	-	3,114,286
Due to U.A.E. Central Bank	4,201,438	-	-	-	4,201,438
Customers' deposits	56,442,393	6,163,349	5,025,449	8,480,101	76,111,292
Term loans	2,773,285	25,925	3,181,386	-	5,980,596
Other liabilities	3,841,822	-	-	-	3,841,822
Total liabilities	70,272,448	6,290,050	8,206,835	8,480,101	93,249,434

The disclosed financial instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the reconciliation of the carrying amounts of derivatives and their future cash flows.

	Less than 3 months AED 000	*3 to 12 months AED 000*	*1 to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2009					
Inflows	2,493,869	2,429,419	1,397,994	1,194,823	7,516,105
Outflows	(2,505,500)	(2,432,113)	(1,297,365)	(1,364,160)	(7,599,138)
Net	(11,631)	(2,694)	100,629	(169,337)	(83,033)

32 RISK MANAGEMENT *continued*

32.3 Liquidity risk and funding management *continued*

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	Less than 3 months AED 000	*3 to 12 months AED 000*	*1 to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2009					
Contingent liabilities	38,795,565	7,353,160	9,906,695	-	56,055,420
Commitments	10,214,911	5,515,385	1,554,921	-	17,285,217
Total	**49,010,476**	**12,868,545**	**11,461,616**	**-**	**73,340,637**
2008					
Contingent liabilities	33,940,227	10,718,719	3,968,345	-	48,627,291
Commitments	10,285,865	4,329,968	4,197,205	-	18,813,038
Total	44,226,092	15,048,687	8,165,550	-	67,440,329

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

32.4 Market risk

Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Effective hedging strategies are in place to ensure that interest rate fluctuations do not cause significant changes in future cash flows or fair value of financial instruments.

The following table estimates the sensitivity to a reasonable possible change in interest rates on the Bank's income statement. The sensitivity of the income statement is the effect of the assumed changes (whether increase or decrease) in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities, denominated in various currencies, held at 31 December 2009, with all other variables held constant.

Currency	*AED*	*USD*	*EUR*	*GBP*	*Others*
Assumed change in interest rates	0.50%	0.50%	0.50%	0.50%	0.50%
Impact on net interest income from increase in interest rates:					
2009 (AED 000)	**76,738**	**(1,789)**	**(7,452)**	**(619)**	**(3,474)**
2008 (AED 000)	76,779	(10,116)	3,688	(151)	405
Impact on net interest income from decrease in interest rates:					
2009 (AED 000)	**(76,738)**	**1,789**	**7,452**	**619**	**3,474**
2008 (AED 000)	(76,779)	10,116	(3,688)	151	(405)

(Amounts in brackets reflect decreases in net interest income.)

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31 December 2009

32 RISK MANAGEMENT *continued*

32.4 Market risk *continued*

Interest rate risk *continued*
The sensitivity of equity is calculated by revaluing fixed rate available for sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates. At 31 December 2009, the effect of the assumed changes in interest rates on equity is as follows.

Currency	USD
Assumed change in interest rates	0.50%
Impact on equity from increase in interest rates:	
2009 (AED 000)	**(14,823)**
Impact on equity from decrease in interest rates:	
2009 (AED 000)	**15,168**

As 31 December 2008, the effect of the assumed changes in interest rates on equity is insignificant.

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2009 on its monetary assets and liabilities and its forecast cash flows. The analysis estimates the effect of a reasonably possible movement of AED against other currencies, with all other variables held constant on the consolidated income statement.

Currency	*USD*	*EUR*	*GBP*	*Libyan*
Assumed change in exchange rates	1%	1%	1%	1%
Impact on operating income from increase in exchange rates:				
2009 (AED 000)	**24,824**	**(74)**	**(18)**	**(3,821)**
2008 (AED 000)	64,183	(133)	(40)	(3,824)
Impact on operating income from decrease in exchange rates:				
2009 (AED 000)	**(24,824)**	**74**	**18**	**3,821**
2008 (AED 000)	(64,183)	133	40	3,824

(Amounts in brackets reflect decreases in operating income.)

At 31 December 2009 and 2008, the effect of the assumed changes in exchange rates on equity is insignificant.

32 RISK MANAGEMENT *continued*

32.4 Market risk *continued*

Equity price risk

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

The following table estimates the sensitivity to a possible change in equity markets on the Bank's income statement. The sensitivity of the income statement is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through the income statement.

	Assumed level of change %	**Impact on net income 2009 AED 000**	Impact on net income 2008 AED 000
Investments carried at fair value through the income statement			
Reference equity benchmarks:			
Abu Dhabi Securities Market Index	5%	**7,814**	11,068
Dubai Financial Market Index	5%	**281**	954
Net asset value of managed funds	5%	**10,169**	26,025
Other equity exchanges	5%	**1,912**	-
Unquoted	5%	**959**	-

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

	Assumed level of change %	**Impact on equity 2009 AED 000**	Impact on equity 2008 AED 000
Available for sale investments			
Reference equity benchmarks:			
Other equity exchanges	5%	**-**	287
Net asset value of private equity funds	5%	**51,148**	56,740

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit for one year, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is estimated at AED 408,386 thousand (2008: AED 334,396 thousand).

32 RISK MANAGEMENT *continued*

32.4 Market risk *continued*

Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, systems failure, human error, fraud or external events. When required controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. While the Bank cannot expect to eliminate all operational risks, through a control framework and by continuous monitoring and responding to potential risks, the Bank is able to manage these risks. Controls include effective segregation of duties, appropriate access, authorisation and reconciliation procedures, staff training and robust assessment processes. The processes are reviewed by risk management and internal audit on an ongoing basis.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

While the Bank prepares its financial statements under the historical cost convention modified for measurement to fair value of investment securities (other than held to maturity investments and certain unquoted investments), investment properties and derivative financial instruments, in the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities, other than the Government deposit referred to in Note 12, that are not carried at fair value in the financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits and performing loans and advances, frequently repriced. For impaired loans and advances, expected cash flows, including anticipated realisation of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the cash flows.

The carrying value of unquoted investments stated at cost and fair value of held to maturity investments are disclosed in Note 5. The fair value of the Government deposit cannot be reliably estimated as this is dependent on the amounts and timing of future loan disbursement under the housing loans scheme. Details of the Government deposit are disclosed in Note 12.

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

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

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

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

33 FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 AED 000	*Level 2 AED 000*	*Level 3 AED 000*	*Total AED 000*
FINANCIAL ASSETS				
NON TRADING INVESTMENTS				
Carried at fair value through income statement				
Investments in managed funds	-	203,374	-	203,374
Investments in equities – Quoted	195,753	19,175	-	214,928
Available for sale investments				
Investments in equities – Unquoted	-	-	61,226	61,226
Investments in private equity funds	-	1,022,968	-	1,022,968
Debt securities	751,912	20,000	-	771,912
	947,665	**1,265,517**	**61,226**	**2,274,408**
DERIVATIVES – Positive fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	41,864	-	41,864
Interest rate swaps, caps and collars	-	468,431	-	468,431
Swaptions	-	5,615	-	5,615
Cross currency interest rate swaps	-	98,949	-	98,949
Equity swaps	-	43,018	-	43,018
Options	–	1,227	-	1,227
Futures	2,671	-	-	2,671
Derivatives held as fair value hedge				
Interest rate swaps	-	2,258	-	2,258
	2,671	**661,362**	**-**	**664,033**
DERIVATIVES – Negative fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	39,096	-	39,096
Interest rate swaps, caps and collars	-	481,811	-	481,811
Swaptions	-	6,746	-	6,746
Credit default swaps	-	6,486	-	6,486
Cross currency interest rate swaps	-	98,949	-	98,949
Equity swaps	-	43,018	-	43,018
Options	-	1,457	-	1,457
Derivatives held as fair value hedge				
Interest rate swaps	-	41,021	-	41,021
	-	**718,584**	**-**	**718,584**

33 FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Investments carried at fair value through income statement

Investments carried at fair value through income statement are listed equities in local as well as international exchanges, and hedged funds. Equity valuations are based on market prices as quoted in the exchange while funds are valued on the basis on Net Asset Value (NAV) statements received from fund managers.

Available for sale investments

AFS investments, revaluation gain / loss of which is recognised through equity, comprises long-term strategic investments in companies, private equity funds and Eurodollar or AED denominated debt securities. For companies and funds, the financial statements provide the valuations of these investments which are arrived primarily by discounted cash flow analysis. For debt securities, the applied valuation is quoted prices by key market players.

Derivatives

Derivatives are mainly interest rate and currency swaps, asset swaps, options on equities, swaptions and FX forward contracts. The valuation techniques used are models which use observable market data like FX forward rates, interest rate curves of different currencies, the deduced zero curves and forward rates and volatilities of the underlying factors

Transfers between categories

During the reporting period ending 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial asset recorded at fair value.

	AED 000
At 1 January 2009	**55,870**
Total gain recorded in equity	**5,356**
At 31 December 2009	**61,226**

34 CAPITAL ADEQUACY

Capital management

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

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

The capital adequacy ratio calculated in accordance with the guidelines of the U.A.E. Central Bank is as follows:

	2009	*2008*
	AED 000	*AED 000*
Total capital base	**26,126,246**	15,550,279
Risk weighted assets:		
Balance sheet items	**89,851,255**	86,898,553
Off-balance sheet exposures	**25,833,538**	23,451,404
Total risk weighted assets	**115,684,793**	110,349,957
Total assets ratio (%)	**22.6%**	14.1%