National Bank of Abu Dhabi PJSC

Consolidated financial statements

31 December 2011

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Consolidated financial statements

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KPMG Lower Gulf Limited
Abu Dhabi Branch
P. O. Box 7613
Abu Dhabi
United Arab Emirates

Telephone +971 (2) 4014 800
Telefax +971 (2) 6327 612
Website www.ae-kpmg.com

Independent Auditors' Report

The Shareholders
National Bank of Abu Dhabi

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Bank of Abu Dhabi PJSC (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the relevant Articles of Association of the Bank and the UAE Federal law No: 8 of 1984 (as amended), and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the relevant Articles of Association of the Bank and the UAE Federal Law No: 8 of 1984 (as amended).

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No: 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group and that the contents of the Chairman's report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and Articles of Association having occurred during the year ended 31 December 2011 which may have had a material adverse effect on the business of the Group or its financial position.

KPMG
Munther Dajani
Registration No. 268

31 January 2012

National Bank of Abu Dhabi PJSC

Consolidated statement of financial position

As at 31 December

	Note	2011 AED'000	2010 AED'000
Assets			
Cash and balances with central banks	7	**24,468,641**	18,429,827
Investments at fair value through profit or loss	8	**1,610,745**	1,292,826
Due from banks and financial institutions	9	**15,166,763**	14,764,757
Reverse repurchase agreements	10	**16,425,020**	10,898,457
Loans and advances	11	**159,522,178**	136,833,496
Non-trading investments	12	**26,569,340**	21,396,005
Other assets	13	**9,689,058**	5,601,350
Property and equipment	14	**2,215,760**	2,210,552
Total assets		**255,667,505**	211,427,270
Liabilities			
Due to banks and financial institutions	15	**39,795,601**	31,551,346
Repurchase agreements	16	**3,513,726**	2,542,896
Euro commercial paper	17	**-**	35,053
Customers' deposits	18	**151,816,887**	123,130,589
Medium-term borrowings	19	**15,148,516**	14,458,665
Other liabilities	20	**11,013,236**	7,283,019
		221,287,966	179,001,568
Subordinated notes	21	**7,990,054**	8,312,286
Total liabilities		**229,278,020**	187,313,854
Equity			
Share capital	22	**2,870,043**	2,391,703
Statutory and special reserves	22	**3,563,274**	3,324,105
Other reserves	22	**11,466,410**	10,089,739
Government of Abu Dhabi tier 1 capital notes	23	**4,000,000**	4,000,000
Share option scheme	24	**76,497**	52,739
Subordinated convertible notes - equity component	21	**27,639**	74,925
Retained earnings		**4,385,622**	4,180,205
Total equity		**26,389,485**	24,113,416
Total liabilities and equity		**255,667,505**	211,427,270

Nasser Ahmed Khalifa Alsowaidi
Chairman

Michael Tomalin
Group Chief Executive

The notes 1 to 44 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2.

National Bank of Abu Dhabi PJSC

Consolidated income statement

For the year ended 31 December

	Note	2011 AED'000	2010 AED'000
Interest income	*25*	**7,651,786**	7,146,858
Interest expense	*26*	**(2,156,538)**	(2,129,245)
Net interest income		**5,495,248**	5,017,613
Income from Islamic financing contracts	*27*	**362,811**	283,225
Depositors' share of profits	*28*	**(55,165)**	(51,998)
Net income from Islamic financing contracts		**307,646**	231,227
Net interest and Islamic financing income		**5,802,894**	5,248,840
Fee and commission income		**1,635,945**	1,460,578
Fee and commission expense		**(245,126)**	(176,527)
Net fee and commission income	*29*	**1,390,819**	1,284,051
Net gain on investments	*30*	**93,540**	301,220
Net foreign exchange gain	*31*	**522,231**	273,891
Other operating income	*32*	**71,378**	70,532
		687,149	645,643
Operating income		**7,880,862**	7,178,534
General, administration and other operating expenses	*33*	**(2,563,724)**	(2,186,002)
Profit before net impairment charge and taxation		**5,317,138**	4,992,532
Net impairment charge	*34*	**(1,498,555)**	(1,206,771)
Profit before taxation		**3,818,583**	3,785,761
Overseas income tax expense	*35*	**(111,036)**	(102,602)
Net profit for the year		**3,707,547**	3,683,159
Basic earnings per share (AED)	*41*	**1.21**	1.20
Diluted earnings per share (AED)	*41*	**1.19**	1.16

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National Bank of Abu Dhabi PJSC

Consolidated statement of comprehensive income
For the year ended 31 December

	Note	**2011 AED'000**	2010 AED'000
Net profit for the year		**3,707,547**	3,683,159
Other comprehensive income			
Exchange difference on translation of foreign operations		**(1,193)**	(9,340)
Change in the fair value reserve	*22*	**(484,408)**	430,617
Directors' remuneration		**(5,450)**	(4,950)
Buy back of subordinated convertible notes	*21*	**8,188**	1,726
Other comprehensive (expenses) / income for the year		**(482,863)**	418,053
Total comprehensive income for the year		**3,224,684**	4,101,212

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National Bank of Abu Dhabi PJSC

Consolidated statement of changes in equity

For the year ended 31 December

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	General reserve AED'000	Government of Abu Dhabi Tier 1 capital notes AED'000	Share option scheme AED'000	Fair value reserve AED'000	Foreign currency translation reserve AED'000	Subordinated convertible notes - equity component AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2009	2,174,275	1,087,138	2,128,253	8,623,500	4,000,000	18,888	(845,223)	5,887	79,712	3,168,138	20,440,568
Total comprehensive income for the year	-	-	-	1,726	-	-	430,617	(9,340)	-	3,678,209	4,101,212
Buy back of subordinated convertible notes *(note 21)*	-	-	-	-	-	-	-	-	(4,787)	-	(4,787)
Options granted to staff *(note 24)*	-	-	-	-	-	33,851	-	-	-	-	33,851
Dividends paid for 2009 *(note 22)*	-	-	-	-	-	-	-	-	-	(217,428)	(217,428)
Bonus shares issued *(note 22)*	217,428	-	-	(217,428)	-	-	-	-	-	-	-
Payment on Tier 1 capital notes *(note 23)*	-	-	-	-	-	-	-	-	-	(240,000)	(240,000)
Transfer to statutory reserve *(note 22)*	-	108,714	-	-	-	-	-	-	-	(108,714)	-
Transfer to general reserve *(note 22)*	-	-	-	2,100,000	-	-	-	-	-	(2,100,000)	-
Balance at 31 December 2010	**2,391,703**	**1,195,852**	**2,128,253**	**10,507,798**	**4,000,000**	**52,739**	**(414,606)**	**(3,453)**	**74,925**	**4,180,205**	**24,113,416**
Total comprehensive income for the year	-	-	-	8,188	-	-	(484,408)	(1,193)	-	3,702,097	3,224,684
Buy back of subordinated convertible notes *(note 21)*	-	-	-	-	-	-	-	-	(14,862)	-	(14,862)
Options granted to staff *(note 24)*	-	-	-	-	-	23,758	-	-	-	-	23,758
Dividends paid for 2010 *(note 22)*	-	-	-	-	-	-	-	-	-	(717,511)	(717,511)
Bonus shares issued *(note 22)*	478,340	-	-	(478,340)	-	-	-	-	-	-	-
Payment on Tier 1 capital notes *(note 23)*	-	-	-	-	-	-	-	-	-	(240,000)	(240,000)
Transfer to statutory reserve *(note 22)*	-	239,169	-	-	-	-	-	-	-	(239,169)	-
Transfer to general reserve *(note 21, 22)*	-	-	-	2,332,424	-	-	-	-	(32,424)	(2,300,000)	-
Balance at 31 December 2011	**2,870,043**	**1,435,021**	**2,128,253**	**12,370,070**	**4,000,000**	**76,497**	**(899,014)**	**(4,646)**	**27,639**	**4,385,622**	**26,389,485**

The notes 1 to 44 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 2.

National Bank of Abu Dhabi PJSC

Consolidated statement of cash flows
For the year ended 31 December

	Note	2011 AED'000	2010 AED'000
Cash flows from operating activities			
Profit before taxation		**3,818,583**	3,785,761
Adjustments for:			
Depreciation	*14*	**157,277**	121,144
Accreted interest		**51,022**	11,130
Profit on buyback of subordinated debt	*21*	**(33,090)**	(26,669)
Write-offs and impairment charge	*34*	**1,897,920**	1,457,453
Foreign currency translation adjustment		**(34,209)**	(101,560)
Share option scheme		**23,758**	33,851
Write back of provisions for loans and advances	*34*	**(268,939)**	(199,405)
		5,612,322	5,081,705
Change in investments at fair value through profit or loss		**(317,919)**	(214,758)
Change in due from central banks, banks and financial institutions		**2,572,179**	(2,257,640)
Change in reverse repurchase agreements		**(5,526,563)**	(10,341,382)
Change in loans and advances		**(24,144,997)**	(5,701,673)
Change in other assets		**(3,942,114)**	(1,063,769)
Change in due to banks and financial institutions		**8,244,255**	774,683
Change in repurchase agreements		**970,830**	(27,393)
Change in customers' deposits		**28,686,298**	7,530,347
Change in other liabilities		**4,001,875**	1,698,038
		16,156,166	(4,521,842)
Overseas income tax paid, net of recoveries		**(101,232)**	(96,783)
Net cash from / (used in) operating activities		**16,054,934**	(4,618,625)
Cash flows from investing activities			
Purchase of non-trading investments		**(11,881,095)**	(9,489,972)
Proceeds from sale/maturity of non-trading investments		**6,207,254**	7,475,152
Purchase of premises and equipment, net of disposals		**(321,858)**	(360,852)
Net cash used in investing activities		**(5,995,699)**	(2,375,672)
Cash flows from financing activities			
Net movement of Euro commercial paper	*17*	**(35,053)**	(140,168)
Issue of medium term borrowings		**537,662**	5,128,037
Repayment of medium term borrowings		**-**	(4,022,274)
Buy back of subordinated notes		**(591,335)**	(154,478)
Dividends paid	*22*	**(717,511)**	(217,428)
Payment on Tier I capital notes	*23*	**(240,000)**	(240,000)
Net cash (used in) / from financing activities		**(1,046,237)**	353,689
Net increase / (decrease) in cash and cash equivalents		**9,012,998**	(6,640,608)
Cash and cash equivalents at 1 January		**20,976,579**	27,617,187
Cash and cash equivalents at 31 December	*36*	**29,989,577**	20,976,579

The notes 1 to 44 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2.

1 Legal status and principal activities

National Bank of Abu Dhabi PJSC (the "Bank") was established in Abu Dhabi in 1968 with limited liability and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law No. 8 of 1984 (as amended) relating to Commercial Companies.

Its registered office address is P. O. Box 4, Abu Dhabi, United Arab Emirates. The consolidated financial statements as at and for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in corporate, retail, private and investment banking activities, Islamic banking activities; and carries out its operations through its local and overseas branches, subsidiaries and representative offices located in United Arab Emirates, Bahrain, Egypt, France, Oman, Kuwait, Sudan, Libya, the United Kingdom, Switzerland, Hong Kong, Jordan, Malaysia and the United States of America.

The Group's Islamic banking activities are conducted in accordance with Islamic Sharia'a laws issued by the Sharia'a Supervisory Board.

The consolidated financial statements were authorised for issue by the Board of Directors on 31 January 2012.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and the requirements of UAE Federal Law No. 8 of 1984 (as amended).

(b) Basis of measurement

The consolidated financial statements are prepared under the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- investments at fair value through profit or loss are measured at fair value;
- non-trading investments classified as available for sale are measured at fair value;
- the carrying values of recognised assets and liabilities that are hedged items in fair value and cash flow hedges, and are otherwise carried at amortised cost, are adjusted to record changes in fair values attributable to risks that are being hedged; and
- non-financial assets acquired in settlement of loans and advances are measured at the lower of their fair value less costs to sell and the carrying amount of the loan and advances.

2 Basis of preparation *(continued)*

(c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional currency. Items included in the financial statements of each of the Bank's overseas subsidiaries and branches are measured using the currency of the primary economic environment in which they operate. Except as indicated, information presented in AED has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in note 5.

(e) Changes in accounting policies

IAS 24 – "Related party disclosures" (revised 2009) supersedes the IAS 24, "Related party disclosures" issued in 2003. The revised standard is effective for periods beginning on or after 1 January 2011 and has been applied by the Group in the Group's consolidated financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3 Significant accounting policies *(continued)*

(a) Basis of consolidation *(continued)*

(i) Subsidiaries (continued)
The consolidated financial statements of the Group comprise the Bank and its subsidiaries as listed below:

	Country of incorporation
Abu Dhabi International Bank Inc.	Curacao, Netherlands Antilles
Abu Dhabi Financial Services LLC	Abu Dhabi, United Arab Emirates
Abu Dhabi National Leasing LLC	Abu Dhabi, United Arab Emirates
Abu Dhabi National Properties PrJC	Abu Dhabi, United Arab Emirates
NBAD Trust Company (Jersey) Limited	Jersey, Channel Islands
NBAD Private Bank (Suisse) SA	Geneva, Switzerland
Abu Dhabi National Islamic Finance Company	Abu Dhabi, United Arab Emirates
Ample China Holding Limited	Hong Kong, China
Abu Dhabi Brokerage Egypt	Egypt

(ii) Special purpose entities
Special purpose entities are entities that are created to accomplish a narrow and well defined objective. The financial statements of special purpose entities are not included in the Group's consolidated financial statements except when the substance of the relationship is that the Group controls the special purpose entity. Information about the Group's special purpose entities is set out in note 43.

(iii) Fund management
The Group manages and administers assets held in trust or in fiduciary capacity on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fund management and fiduciary activity is set out in note 42.

(iv) Transactions eliminated on consolidation
The carrying amount of the Bank's investment in each subsidiary and the equity of each subsidiary is eliminated on consolidation. All significant intra-group balances, and unrealised income and expenses arising from intra-group transactions are eliminated on consolidation.

(b) Financial assets and liabilities

(i) Recognition
The Group initially recognises loans and advances, customers' deposits, medium term and subordinated debt on the date that they are originated. All other financial assets and liabilities are initially recognised on the statement of financial position when, the Group becomes a party to the contractual provisions of the instrument.

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

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(ii) Derecognition

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

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

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such transactions, the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions *(note 16).*

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible *(note 4).*

(iii) Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(iv) Held for trading

Trading assets are those assets that the group acquires for the purpose of selling in the near term, or holds as part of a portfolio that is managed together for short-term profit taking.

Trading assets are initially recognised and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to the consolidated income statement. All changes in fair value are recognised as part of net trading income in the consolidated income statement. Trading assets are not reclassified subsequent to their initial recognition.

(v) Designation as available for sale and held-to-maturity

The Group has non-derivative financial assets designated as available for sale when these are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss, available for sale or those meet the definition of loans and advances.

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(vi) Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(vii) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(viii) Fair value measurement

The determination of fair values of financial assets and liabilities is based on quoted market prices or dealer quotations for financial instruments traded in active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. Quoted bid prices are used for financial assets and quoted ask prices are used for financial liabilities.

For financial instruments not traded on an active market, fair value is determined based on recent transactions, brokers' quotes or a widely recognised valuation technique.

Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(ix) Identification and measurement of impairment

An assessment is made at each reporting date and periodically during the year to determine whether there is any objective evidence that financial assets not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment at both specific and collective level. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognised in the consolidated income statement and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated income statement.

3 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(ix) Identification and measurement of impairment (continued)

Impairment losses on available for sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of other comprehensive income to the consolidated income statement. When a subsequent event causes the amount of impairment loss on available-for-sale debt security to decrease, the impairment loss is reversed through the consolidated income statement.

Impairment losses on an unquoted equity instrument that is carried at cost because its fair value cannot be reliably measured, is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(c) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with central banks and due from banks with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

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

(d) Investments at fair value through profit or loss

These are financial assets classified as held for trading or designated as such upon initial recognition. These are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated income statement. All related realised and unrealised gains or losses are included in net investment income.

(e) Due from banks

These are stated at amortised cost, less any allowance for impairment.

(f) Loans and advances

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

These are initially measured at fair value (being the transaction price at inception) plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest method, adjusted for effective fair value hedges, net of interest suspended and provisions for impairment.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances. In determining of whether an arrangement is a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the assets.

3 Significant accounting policies *(continued)*

(g) Islamic financing and investing contracts

(i) Definitions

Ijara
Ijara consists of Ijara muntahia bitamleek.

Ijara muntahia bitamleek is an agreement whereby the Group (the lessor) conveys to the customer (the lessee), in return for a specific rent, the right to use a specific asset for a specific period of time, against payment of fixed periodical and variable rental. Under this agreement, the Group purchases or constructs the asset and rents it to the customer. The contract specifies the leasing party and the amount and timing of rental payments and responsibilities of both parties during the term of the lease. The customer provides the Group with an undertaking to settle the rental amount as per the agreed schedule.

The Group retains the ownership of the assets throughout the entire lease term. At the end of the lease term, the Group sells the leased asset to the customer at a nominal value based on a sale undertaking by the Group.

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

Mudaraba
A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible for all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Wakala
An agreement whereby the Group provides a certain sum of money to an agent (Wakkil) who invests it in Sharia's compliant transactions according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested).

(ii) Revenue recognition

Ijara
Income from Ijara is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Murabaha
Income from Murabaha is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

3 Significant accounting policies *(continued)*

(g) Islamic financing and investing contracts *(continued)*

(ii) Revenue recognition (continued)

Mudaraba
Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the consolidated income statement on their declaration by the Mudarib.

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

(h) Non-trading investments

Included in non-trading investments are available for sale assets which are initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition.

After initial recognition, these investments are remeasured at fair value. For investments which are not part of an effective hedge relationship, unrealised gains or losses are recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income, is included in the consolidated income statement for the year. For investments which are part of an effective fair value hedge relationship, any unrealised gain or loss arising from a change in fair value is recognised directly in the consolidated income statement to the extent of the changes in fair value being hedged.

For the purpose of recognising foreign exchange gains and losses, an available for sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences are recognised in the consolidated income statement.

For unquoted equity investments where fair value cannot be reliably measured, these are carried at cost less provision for impairment in value. Upon subsequent derecognition, the profit or loss on sale is recognised in the consolidated income statement for the year.

Included in non-trading investments are held-to-maturity assets which are carried at amortised cost less impairment.

(i) Reverse repurchase agreements

Assets purchased with a simultaneous commitment to resale at a specified future date (reverse repos) are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements in the consolidated statement of financial position. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated income statement using the effective interest method.

3 Significant accounting policies *(continued)*

(j) Property and equipment

(i) Recognition and measurement

All items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Capital projects in progress are initially recorded at cost, and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other operating income in the consolidated income statement.

(ii) Depreciation

Depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of all property and equipment. Freehold land and capital work in progress are not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

Buildings	20 to 50 years
Office furniture and equipment	1 to 5 years
Alterations to premises	4 years
Safes	10 to 20 years
Computer systems and equipment	3 to 7 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reassessed at every reporting date.

(iii) Impairment

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the consolidated income statement to the extent that carrying values do not exceed the recoverable amounts.

3 Significant accounting policies *(continued)*

(k) Collateral pending sale

Non-financial assets acquired in settlement of loans and advances are recorded as assets held for sale and reported in “Other assets”. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated income statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated income statement. The Group’s collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Group operates.

(l) Due to banks, customers’ deposits, Euro commercial paper and medium-term borrowings

Due to banks, customer deposits, Euro commercial paper and medium-term borrowings are initially recognised at their fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method.

(m) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. The liability to the counterparty for amounts received under these agreements is shown as repurchase agreements in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement and charged to the consolidated income statement using the effective interest method.

(n) Subordinated notes

Subordinated notes include subordinated convertible notes that can be converted into share capital at the option of the holder, where the number of shares issued do not vary with changes in their fair value, are accounted for as compound financial instruments. The equity component of the subordinated convertible notes is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

Subsequent to initial recognition subordinated notes are measured at their amortised cost using the effective interest method.

(o) Share option scheme

On the grant date fair value of options granted to staff is recognised as staff cost, with a corresponding increase in equity, over the period in which the staff become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date.

3 Significant accounting policies *(continued)*

(o) Share option scheme *(continued)*

The fair value of the amount payable to staff in respect of the share appreciation rights that are settled in cash is recognised as an expense with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in consolidated income statement.

(p) Interest

Interest income and expense are recognised in the consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

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

Interest income and expense presented in the consolidated income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest basis.
- interest on available-for-sale investment securities on an effective interest basis.
- interest on held for trading securities on an effective interest basis.

(q) Fee and commission

The Group earns fee and commission income from a diverse range of services provided to its customers. The basis of accounting treatment of fees and commission depends on the purposes for which the fees are collected and accordingly the revenue is recognised in consolidated income statement. Fee and commission income is accounted for as follows:

- income earned from the provision of services is recognised as revenue as the services are provided (for example, loan processing fees, investment management fees and loan syndication fees); and
- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, commission on the allotment of shares to a client, placement fees for arranging a loan between the borrower and an investor).
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in “Interest income”;

Fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

3 Significant accounting policies *(continued)*

(r) Net investment income

Net investment income comprise gains less losses relating to realised and unrealised gains and losses on investments at fair value through profit or loss, realised gains and losses on non-trading investments and dividend income. Dividend income is recognised when the right to receive payment is established.

(s) Foreign currency

(i) Foreign currency transactions
Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in consolidated income statement.

(ii) Foreign operations
The activities of subsidiaries and branches based outside the UAE are not deemed an integral part of the head office operations, as they are financially and operationally independent of the head office. The assets and liabilities of the subsidiaries and overseas branches are translated into UAE Dirhams at rates of exchange at the reporting date. Income and expense items are translated at average rates, as appropriate, at the dates of transactions. Exchange differences (including those on transactions which hedge such investments) arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income.

3 Significant accounting policies *(continued)*

(t) Overseas income tax

Income tax expense is provided for in accordance with fiscal regulations of the respective countries in which the Group operates and is recognised in the consolidated income statement. Income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

(u) Zakat

Zakat represents business zakat payable by the Group to comply with the principles of Sharia'a and approved by the Sharia'a Supervisory Board.

The Group's appointed Zakat Committee is mandated to recommend zakat distribution.

3 Significant accounting policies *(continued)*

(v) Derivative financial instruments and hedging

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the consolidated income statement. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for trading are recognised in the consolidated income statement. When derivatives are designated as hedges, the Group classifies them as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) 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 highly probable forecast transaction. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided certain criteria are met.

Embedded derivatives
Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristic and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented separately from host contract in the consolidated statement of financial position.

Hedge accounting
It is the Group's policy to document, at the inception of a hedge, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy. The policy also requires documentation of the assessment, at inception and on an ongoing basis, of the effectiveness of the hedge.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80‑125 percent. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge
In relation to fair value hedges, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated income statement.

3 Significant accounting policies *(continued)*

(v) Derivative financial instruments and hedging *(continued)*

Cash flow hedge
In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in other comprehensive income and transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement. Gain or loss, if any, relating to the ineffective portion is recognised immediately in the consolidated income statement. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated income statement.

Other derivatives
All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting or are not designated as such are recognised immediately in the consolidated income statement as a component of net investment income or net foreign exchange gain.

(w) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(x) Staff terminal benefits

UAE operations: UAE nationals employed by the Group are registered in the scheme managed by Abu Dhabi Retirement Pensions & Benefits Fund in accordance with Law number (2) of 2000. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Group's internal regulations, which comply with the UAE federal labour law.

Foreign operations: the Group provides for staff terminal benefits for its employees based overseas in accordance with the applicable regulations in those jurisdictions.

(y) Directors' remuneration

In accordance with the Ministry of Economy and Commerce interpretation of Article 119 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration has been treated as an component of other comprehensive income.

(z) Fiduciary activities

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

(aa) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantee contracts in the nature of credit default guarantees are treated as insurance contracts and accounted under IFRS 4.

3 Significant accounting policies *(continued)*

(aa) Financial guarantees *(continued)*

For other financial guarantee contracts, financial guarantees are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

(ab) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise subordinated convertible notes and share options granted to staff.

(ac) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Head office segment is comprised of head office as well as aggregated individually insignificant segments.

(ad) Lease payments

Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ae) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements:

IAS -1 *(Amendments to IAS 1)* Presentation of Items of Other Comprehensive Income: the amendments change the grouping of items presented in other comprehensive income Effective 1 July 2012

IFRS - 7 *(Amendments to IFRS 7)* - Disclosures - Transfers of Financial Assets the amendment introduces disclosure requirement for financial assets and liabilities that are offset in statement of financial position or are subject to master netting arrangement or similar arrangements. Effective 1 January 2013;

IAS -12 *(Amendments to IAS 12)* - Deferred Tax: Recovery of Underlying Assets: Effective 1 January 2012;

3 Significant accounting policies *(continued)*

(ae) New standards and interpretations not yet adopted *(continued)*

IFRS -10 *Consolidated Financial Statements*: Replaces the part of IAS 27 Consolidated and separate financial statements and SIC 12 Consolidation - Special purpose entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. Effective 1 January 2013;

IFRS -11 *Joint Arrangements*: Standard on Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities Effective 1 January 2013

IFRS -12 *Disclosure of Interests in Other Entities*: Standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities Effective 1 January 2013

IFRS -13 *Fair Value Measurement*: Seeks to increase consistency and comparability in fair value measurements and related disclosures across IFRSs Effective 1 January 2013;

IFRS -9 *Financial Instruments:* In November 2009 the IASB's issued IFRS 9 as a comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39 with few exceptions.

IFRS 9 (2010) also added the requirements of IAS 39 for the derecognition of financial assets and liabilities to IFRS 9 without change.

The IASB has deferred the mandatory effective date of the existing chapters of IFRS 9 Financial Instruments (2009) and IFRS 9 (2010) to annual periods beginning on or after January 1, 2015. The early adoption of either standard continues to be permitted. Given the nature of the Groups operations, this standard is expected to have a pervasive impact on the Group's consolidated financial statement.

4 Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

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

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by two board committees (Risk Management Committee and Audit Committee), and three management committees (Assets and Liabilities Committee, Group Credit Committee and Operational Risk Management Committee).

(b) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, due from banks and financial institutions, reverse repurchase agreements and non-trading investments and certain other assets.

For risk management purposes, credit risk arising on trading investments is managed independently, and reported as a component of market risk exposure.

Management of credit risk

The Group uses an internal risk rating system to assess the credit quality of borrowers and counterparties. Each exposure in the Sovereign, Banks and Corporate asset classes is assigned a rating. The risk rating system has 11 grades, further segregated into 24 notches. Grades 1-7 are performing, Grade 8 is Other Loans Especially Mentioned (OLEM) and Grades 9 -11 are non – performing each with a rating description.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Credit risk arising from other financial instruments are managed by assigning limits, diversification of investment activities, limiting concentration of exposure to industry sectors, geographical locations and counterparties

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment:

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

	Due from Banks and financial institutions		Loans and advances		Non-trading investments	
	2011 AED'000	2010 AED'000	**2011 AED'000**	2010 AED'000	**2011 AED'000**	2010 AED'000
Individually impaired						
Substandard	**-**	-	**2,292,175**	2,054,985	**-**	-
Doubtful	**979**	979	**1,823,454**	558,651	**20,055**	20,055
Loss	-	-	**1,225,818**	994,079	-	-
Gross amount	**979**	979	**5,341,447**	3,607,715	**20,055**	20,055
Interest suspended	**-**	-	**(502,139)**	(358,624)	-	-
Specific allowance for impairment	**(979)**	(979)	**(2,480,109)**	(1,771,860)	**(16,712)**	(16,712)
Carrying amount	-	-	**2,359,199**	1,477,231	**3,343**	3,343
Past due but not impaired						
Past due comprises:						
Less than 30 days	-	-	**430,912**	202,089	-	-
31 – 60 days	-	-	**74,894**	45,979	-	-
61 – 90 days	-	-	**77,998**	443,935	-	-
More than 90 days	-	-	**1,774,272**	2,472,830	-	-
Carrying amount	-	-	**2,358,076**	3,164,833	-	-
Neither past due nor Impaired	**15,166,763**	14,764,757	**157,125,500**	134,083,653	**26,565,997**	21,392,662
Collective allowance for impairment	-	**-**	**(2,320,597)**	(1,892,221)	-	-
Carrying amount	**15,166,763**	14,764,757	**159,522,178**	136,833,496	**26,569,340**	21,396,005

Non trading investment includes investment in equity instruments amounting to AED 97 million *(2010: AED 69 million)* which does not carry credit risk.

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impaired loans and advances and non-trading investments
Impaired loans and advances and non-trading investments are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. The Group financial assets that are neither past due nor impaired fall within the grade 1 – 7 in accordance with the Group's internal credit risk grading system.

Past due but not impaired
Past due but not impaired are accounts where either contractual principal or interest are past due or when the accounts show some potential weakness in the borrower's financial position and creditworthiness, and requires more than normal attention. Such potential weakness is specifically monitored to ensure that the quality of the asset does not deteriorate in the near future affecting negatively the Group's credit position. On this class of asset the Group believes that specific impairment is not appropriate at the current condition, but interest is suspended in certain cases.

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to either deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider or the loans are performing but the terms have been amended. Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish satisfactory track record of performance under the restructuring agreement. The Bank determines the twelve-month period to commence from either the date of signing of the agreement for restructuring or the date on which the revised terms were first adhered to by the borrower, whichever comes earlier. In the last twelve months, the Group has renegotiated the following exposures:

	2011 AED'000	2010 AED'000
Renegotiated loans	**3,159,123**	2,734,460

Accounts with re-negotiated terms amounting to AED 50,655 thousand *(2010: AED 604,444 thousand)* are included in past due but not impaired.

Movement of renegotiated loans during the year

	2011 AED'000	2010 AED'000
Balance at the beginning of the year	**2,734,460**	3,183,155
Upgraded to neither past due nor impaired during the year	**(1,620,838)**	(2,386,863)
Downgraded to individually impaired or past due but not impaired during the year	**(508,191)**	(772,651)
Additions during the year	**2,553,692**	2,710,819
Balance at the end of the year	**3,159,123**	2,734,460

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Allowances for impairment
The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance for losses that have been incurred but not identified, established for groups of homogeneous assets with similar risk characteristics that are indicative of the debtor's ability to pay amounts due according to the contractual terms on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Individually assessed loans are required to be classified as impaired as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payment of principal or interest is overdue or there is known difficulties in the cash flows of counterparties, credit rating downgrades or original terms of the contractual repayment are unable to be met.

Write-off policy
The Group writes off a loan or investment balance (and any related allowances for impairment losses) when the Risk Management Committee determines that the loans or investments are uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.

Collateral
The Group holds collateral against loans and advances and reverse repurchase agreement in the form of mortgage interests over property, other securities, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against due from banks, and no such collateral was held at 31 December 2011 or 2010.

An estimate of the collateral coverage against non performing loans and advances (including Islamic financing) is shown below:

	2011	2010
	AED'000	AED'000
Collateral value cover		
0 – 50%	**2,961,173**	2,495,414
50 – 100%	**1,358,079**	804,340
Above 100%	**1,022,195**	307,961
Total Gross non performing Loans	**5,341,447**	3,607,715

During the year 2011 and 2010, the Group repossessed a negligible amount of collateral that was held as security against loans and advances.

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Concentrations of risk

The Group monitors concentrations of credit risk by industry sector, counterparty and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Loans and advances		**Others**	
	2011	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000
Concentration by industry sector:				
Agriculture	**50,082**	103,532	**-**	-
Energy	**30,557,399**	25,043,930	**3,105,361**	2,415,564
Manufacturing	**9,152,371**	6,583,978	**-**	13,666
Construction	**5,237,302**	6,631,172	**1,201**	110,711
Real estate	**27,228,389**	23,970,794	**824,632**	812,764
Trading	**4,018,428**	3,617,829	**59,457**	55,430
Transport	**6,215,941**	5,929,186	**153,727**	394,472
Banks	**16,052,536**	4,236,794	**21,456,968**	19,637,077
Other financial institutions	**7,338,342**	6,942,760	**11,554,296**	3,677,504
Services	**14,356,321**	13,869,731	**628,408**	919,279
Government	**17,293,055**	16,949,791	**6,810,035**	5,539,023
Personal loans for consumption	**17,591,302**	18,065,721	**-**	-
Personal loans others	**9,252,772**	8,489,823	**11,020**	11,020
Others	**480,783**	421,160	**-**	778
	164,825,023	140,856,201	**44,605,105**	33,587,288
Less: allowance for impairment	**(4,800,706)**	(3,664,081)	**-**	-
Less: interest suspended	**(502,139)**	(358,624)	**-**	-
Carrying amount	**159,522,178**	136,833,496	**44,605,105**	33,587,288

Others comprises of Investments at fair value through profit or loss account, reverse repurchase agreements and non trading investments.

	Investments at fair value through profit or loss		**Non-trading investments**	
	2011	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000
Concentration by counter party:				
Government	**248,497**	292,898	**6,561,538**	5,245,962
Supranational	**-**	-	**9,586**	36,768
Public sector	**298,074**	249,660	**5,214,065**	3,390,161
Banks and financial institutions	**407,581**	200,584	**13,884,779**	11,465,305
Corporate sector	**656,593**	549,684	**916,084**	1,274,521
	1,610,745	1,292,826	**26,586,052**	21,412,717
Less: Allowance for impairment	**-**	-	**(16,712)**	(16,712)
Total carrying amount	**1,610,745**	1,292,826	**26,569,340**	21,396,005

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

The concentration by counter party for loans and advances is disclosed in note 11.

Concentration by location:

	Due from banks and financial institutions AED'000	Loans and advances AED'000	Reverse repurchase agreements AED'000	Non-trading investments AED'000
As at 31 Dec 2011				
UAE	5,201,923	116,431,965	2,187,054	12,113,857
Europe	3,853,883	19,974,368	8,574,123	7,185,706
Arab countries	3,557,193	13,260,380	5,480,193	5,377,449
America	2,190,238	1,760,516	183,650	731,943
Asia	352,876	7,241,746	-	-
Others	10,650	853,203	-	1,160,385
	15,166,763	**159,522,178**	**16,425,020**	**26,569,340**
As at 31 Dec 2010				
UAE	4,148,392	106,478,359	11,024	10,372,416
Europe	5,941,773	15,005,846	6,833,156	5,212,152
Arab countries	3,014,020	12,899,501	3,727,979	3,610,728
America	1,009,253	674,829	326,298	816,306
Asia	632,079	1,195,792	-	-
Others	19,240	579,169	-	1,384,403
	14,764,757	**136,833,496**	**10,898,457**	**21,396,005**

Concentration by location for loans and advances, due from banks and financial institutions is measured based on the residential status of the borrower. Concentration by location for non-trading investments and reverse repurchase agreements is measured based on the location of the issuer of the security.

Classification of trading securities and investment securities as per their external ratings:

	Non-trading investments		Investments at fair value through profit or loss	
	2011	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000
AAA	**198,413**	1,407,098	**-**	-
AA to A	**21,046,024**	15,154,105	**877,368**	550,900
BBB to B	**2,824,272**	2,349,245	**92,506**	203,279
Lower than B	**29,397**	-	**-**	-
Unrated	**2,471,234**	2,485,557	**640,871**	538,647
	26,569,340	21,396,005	**1,610,745**	1,292,826

Unrated investments primarily consist of investments in Government related entities and investments in equities and funds.

4 Financial risk management *(continued)*

(b) Credit risk *(continued)*

Settlement risk
The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed. Any delay in settlement is rare and monitored.

Derivative related credit risk
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 market value of instruments that are favourable to the Group, which are included in other assets. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Group's derivative contracts are entered into with other bank and financial institutions.

Commitments and contingencies related credit risk
Credit risk arising from commitments and contingencies is discussed in note 37.

(c) Liquidity risk

Liquidity or funding risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately.

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

The key measure used by the Group for measuring liquidity risk is the ratio of net assets, i.e., total assets by maturity against total liabilities by maturity.

Exposure to liquidity risk
Details of the Group's net liquid assets is summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities at 31 December 2011 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	**24,468,641**	20,424,736	4,026,367	-	-	17,538	-
Investments at fair value through profit or loss	**1,610,745**	1,610,745	-	-	-	-	-
Due from banks and financial institutions	**15,166,763**	12,024,938	3,050,000	91,825	-	-	-
Reverse repurchase agreements	**16,425,020**	13,956,944	1,123,183	1,344,893	-	-	-
Loans and advances	**159,522,178**	29,337,267	22,762,261	34,344,119	16,953,842	56,124,689	-
Non-trading investments	**26,569,340**	2,773,635	2,247,170	5,413,694	2,737,498	13,397,343	-
Other assets	**9,689,058**	8,024,985	1,110,655	172,308	224,054	157,056	-
Property and equipment	**2,215,760**	-	-	-	-	-	2,215,760
	255,667,505	**88,153,250**	**34,319,636**	**41,366,839**	**19,915,394**	**69,696,626**	**2,215,760**
Liabilities and equity							
Due to banks and financial institutions	**39,795,601**	37,025,180	2,678,596	91,825	-	-	-
Repurchase agreements	**3,513,726**	3,513,726	-	-	-	-	-
Euro commercial paper	**-**	-	-	-	-	-	-
Customers' deposits	**151,816,887**	133,965,879	13,032,057	4,609,798	52,414	156,739	-
Medium-term borrowings	**15,148,516**	2,010,311	1,535,793	6,432,823	3,466,416	1,703,173	-
Other liabilities	**11,013,236**	8,798,754	1,683,787	165,233	214,855	150,607	-
Subordinated notes	**7,990,054**	-	-	-	1,040,631	6,949,423	-
Equity	**26,389,485**	-	-	-	-	-	26,389,485
	255,667,505	**185,313,850**	**18,930,233**	**11,299,679**	**4,774,316**	**8,959,942**	**26,389,485**
Undrawn commitments to extend credit	**20,873,395**	1,930,648	1,947,945	2,830,702	1,533,254	12,630,846	-
Financial guarantees	**11,564,783**	2,036,563	820,569	2,752,441	5,950,260	4,950	-

4 Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities at 31 December 2010 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	**18,429,827**	11,309,721	7,029,532	57,539	-	33,035	-
Investments at fair value through profit or loss	**1,292,826**	1,292,826	-	-	-	-	-
Due from banks and financial institutions	**14,764,757**	12,123,601	2,636,611	4,545	-	-	-
Reverse repurchase agreements	**10,898,457**	10,486,628	411,829	-	-	-	-
Loans and advances	**136,833,496**	29,141,848	12,164,823	26,579,103	18,531,968	50,415,754	-
Non-trading investments	**21,396,005**	1,254,594	2,177,423	2,323,627	5,062,410	10,577,951	-
Other assets	**5,601,350**	4,177,268	1,002,320	113,809	171,115	136,838	-
Property and equipment	**2,210,552**	-	-	-	-	-	2,210,552
	211,427,270	**69,786,486**	**25,422,538**	**29,078,623**	**23,765,493**	**61,163,578**	**2,210,552**
Liabilities and equity							
Due to banks and financial institutions	**31,551,346**	28,870,318	2,589,203	91,825	-	-	-
Repurchase agreements	**2,542,896**	2,542,896	-	-	-	-	-
Euro commercial paper	**35,053**	-	35,053	-	-	-	-
Customers' deposits	**123,130,589**	103,099,653	14,444,607	3,074,843	2,479,214	32,272	-
Medium-term borrowings	**14,458,665**	-	-	6,463,841	6,939,162	1,055,662	-
Other liabilities	**7,283,019**	5,567,513	1,348,078	92,966	139,777	134,685	-
Subordinated notes	**8,312,286**	-	-	-	-	8,312,286	-
Equity	**24,113,416**	-	-	-	-	-	24,113,416
	211,427,270	**140,080,380**	**18,416,941**	**9,723,475**	**9,558,153**	**9,534,905**	**24,113,416**
Undrawn commitments to extend credit	**24,364,556**	2,729,890	2,466,361	7,040,426	543,594	11,584,285	-
Financial guarantees	**10,066,405**	615,232	2,857,006	3,103,250	899,885	2,591,032	-

4 Financial risk management *(continued)*

(d) Market risk

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as interest rates, foreign exchange rates and market prices of equity and commodity price.

Management of market risk
The Risk Management Committee has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Division and reported regularly to Senior Management and discussed monthly by the Assets and Liabilities Committee.

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

Interest rate risk
Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 38.

The substantial portion of the Group's assets and liabilities are re-priced within one year. Accordingly there is a limited exposure to interest rate risk.

The effective interest rate of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

4 Financial risk management *(continued)*

(d) Market risks *(continued)*

The Group's interest rate gap and sensitivity position based on contractual re-pricing arrangements at 31 December 2011 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	over 5 years AED'000	Non interest bearing AED'000
Assets							
Cash and balances with central banks	**24,468,641**	18,928,096	4,026,367	-	-	4,770	1,509,408
Investments at fair value through profit or loss	**1,610,745**	39,276	250,296	290,552	115,779	316,056	598,786
Due from banks and financial institutions	**15,166,763**	14,371,954	150,000	91,825	-	-	552,984
Reverse repurchase agreements	**16,425,020**	13,956,943	1,123,184	1,344,893	-	-	-
Loans and advances	**159,522,178**	134,372,583	21,817,149	1,981,243	183,904	755,428	411,871
Non-trading investments	**26,569,340**	8,164,665	2,925,075	3,946,774	2,097,248	9,328,190	107,388
Other assets	**9,689,058**	-	-	-	-	-	9,689,058
Property and equipment	**2,215,760**	-	-	-	-	-	2,215,760
	255,667,505	**189,833,517**	**30,292,071**	**7,655,287**	**2,396,931**	**10,404,444**	**15,085,255**
Liabilities and equity							
Due to banks and financial institutions	**39,795,601**	34,075,491	2,678,596	-	-	-	3,041,514
Repurchase agreements	**3,513,726**	3,513,726	-	-	-	-	-
Euro commercial paper	**-**	-	-	-	-	-	-
Customers' deposits	**151,816,887**	92,076,934	11,089,841	3,457,066	52,414	153,838	44,986,794
Medium-term borrowings	**15,148,516**	6,300,854	-	3,678,073	3,466,416	1,703,173	-
Other liabilities	**11,013,236**	-	-	-	-	-	11,013,236
Subordinated notes	**7,990,054**	2,077,407	-	-	-	5,912,647	-
Equity	**26,389,485**	-	-	-	-	-	26,389,485
	255,667,505	**138,044,412**	**13,768,437**	**7,135,139**	**3,518,830**	**7,769,658**	**85,431,029**
On statement of financial position gap		51,789,105	16,523,634	520,148	(1,121,899)	2,634,786	(70,345,774)
Off statement of financial position gap		(7,535,883)	2,783,095	(687,595)	7,993,211	(2,552,828)	-
Total interest rate sensitivity gap		**44,253,222**	**19,306,729**	**(167,447)**	**6,871,312**	**81,958**	**(70,345,774)**
Cumulative interest rate sensitivity		**44,253,222**	**63,559,951**	**63,392,504**	**70,263,816**	**70,345,774**	-

4 Financial risk management *(continued)*

(d) Market risks *(continued)*

The Group's interest rate gap and sensitivity position based on contractual re-pricing arrangements at 31 December 2010 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	over 5 years AED'000	Non interest bearing AED'000
Assets							
Cash and balances with central banks	**18,429,827**	5,298,703	7,112,801	57,368	-	5,689	5,955,266
Investments at fair value through profit or loss	**1,292,826**	45,404	68,752	209,840	273,278	217,864	477,688
Due from banks and financial institutions	**14,764,757**	10,487,196	2,636,611	4,545	-	-	1,636,405
Reverse repurchase agreements	**10,898,457**	10,443,480	411,829	-	-	-	43,148
Loans and advances	**136,833,496**	59,782,435	71,424,301	2,002,363	1,098,242	2,380,363	145,792
Non-trading investments	**21,396,005**	7,645,966	3,030,580	985,347	4,511,951	5,118,310	103,851
Other assets	**5,601,350**	-	-	-	-	-	5,601,350
Property and equipment	**2,210,552**	-	-	-	-	-	2,210,552
	211,427,270	**93,703,184**	**84,684,874**	**3,259,463**	**5,883,471**	**7,722,226**	**16,174,052**
Liabilities and equity							
Due to banks and financial institutions	**31,551,346**	26,687,290	3,015,743	-	-	-	1,848,313
Repurchase agreements	**2,542,896**	2,542,896	-	-	-	-	-
Euro commercial paper	**35,053**	-	35,053	-	-	-	-
Customers' deposits	**123,130,589**	82,248,622	14,024,404	2,931,458	1,998,063	28,491	21,899,551
Medium-term borrowings	**14,458,665**	4,295,433	-	2,168,408	6,939,162	1,055,662	-
Other liabilities	**7,283,019**	-	-	-	-	-	7,283,019
Subordinated notes	**8,312,286**	2,685,378	-	-	-	5,626,908	-
Equity	**24,113,416**	-	-	-	-	-	24,113,416
	211,427,270	**118,459,619**	**17,075,200**	**5,099,866**	**8,937,225**	**6,711,061**	**55,144,299**
On statement of financial position gap		(24,756,435)	67,609,674	(1,840,403)	(3,053,754)	1,011,165	(38,970,247)
Off statement of financial position gap		(8,871,682)	(1,800,690)	4,356,310	5,308,882	1,007,180	-
Total interest rate sensitivity gap		**(33,628,117)**	**65,808,984**	**2,515,907**	**2,255,128**	**2,018,345**	**(38,970,247)**
Cumulative interest rate sensitivity		**(33,628,117)**	**32,180,867**	**34,696,774**	**36,951,902**	**38,970,247**	**-**

4 Financial Risk Management *(continued)*

(d) Market risks *(continued)*

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points *(2010: 50 basis points)* and estimates the following impact on the net profit for the year and equity at that date:

	Net profit for the year AED'000 2011	**Equity AED'000 2011**	Net profit for the year AED'000 2010	Equity AED'000 2010
Fluctuation in yield	**229,808**	**398,733**	(26,362)	117,480

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 240,582 million *(2010: AED 195,253 million)* interest bearing assets and AED 170,236 million *(2010: AED 156,283 million)* interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net spot position (short)/long AED'000	**Forward position (short)/long AED'000**	**Total 2011 (short)/long AED'000**	Total 2010 (short)/long AED'000
Currency				
US Dollar	8,108,374	(6,364,130)	**1,744,244**	(5,658,953)
UK Sterling Pound	(3,046,049)	3,083,595	**37,546**	(6,321)
Euro	5,288,216	(5,332,372)	**(44,156)**	3,146
Kuwaiti Dinar	213,159	(173,597)	**39,562**	57
Omani Riyal	401,058	(668,847)	**(267,789)**	3,689
Saudi Riyal	(2,557,820)	2,049,565	**(508,255)**	(22,820)
Japanese Yen	1,502,935	(1,496,624)	**6,311**	210,715
Swiss Franc	252,127	(312,661)	**(60,534)**	(56,492)

The exchange rate of AED against US Dollar is pegged since November 1980 and the Group's exposure to currency risk is limited to that extent. Exposure to other foreign currencies is insignificant.

4 Financial Risk Management *(continued)*

(d) Market risks *(continued)*

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

(e) Operational risks

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

The Board has oversight responsibilities for operational risk management in the Group. These responsibilities are exercised through ORMC with an established framework of policies and procedures to identify, assess, monitor, control, manage and report risks. The ORMC employs clear internal policies and procedures to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance. The framework also provides the interrelation with other risk categories.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Compliance Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(f) Capital management

The Group's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements. The overseas branches and subsidiaries are directly supervised by their local regulators.

The Group's objectives when managing capital are:

- safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- comply with regulatory capital requirements set by the Central Bank of the UAE and the respective regulators where the overseas units operate.

4 Financial risk management *(continued)*

(f) Capital management *(continued)*

During 2011, the Group's strategy, which was unchanged from 2010, was to:

- maintain a cap for payment of cash dividend ratio of 40% to increase capital through retention;
- maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel accord guidelines;
- maintain the highest credit rating in the Middle East; and
- efficiently allocate capital to various businesses.

The Group has set up a committee, namely, the Bank Equity Committee, to manage the investment of capital funds in sovereign bonds and short term money market placements with either the Central Bank of the UAE or above investment grade financial institutions.

In implementing current capital requirements, the Group calculates its risk asset ratio in accordance with capital adequacy guidelines established by the Central Bank of the UAE prescribing the ratio of total capital to total risk-weighted assets. Further, the Group also calculates its capital adequacy ratio in accordance with Basel II Accord which was adopted by the Central Bank of the UAE with effect from 31 December 2008.

The Group's regulatory capital adequacy ratios, set by the Central Bank of the UAE at a minimum level of 12% *(2010: 12%)*, is analysed into two tiers as follows:

4 Financial risk management *(continued)*

(f) Capital management *(continued)*

	2011	2010
	AED'000	AED'000
Tier 1 capital		
Ordinary share capital	**2,870,043**	2,391,703
Retained earnings	**4,385,622**	4,180,205
Statutory and special reserve	**3,563,274**	3,324,105
General reserve and share option scheme	**12,446,567**	10,560,537
Foreign currency translation reserve	**(4,646)**	(3,453)
Subordinated convertible notes - equity component	**27,639**	74,925
Government of Abu Dhabi tier 1 capital notes	**4,000,000**	4,000,000
Total	**27,288,499**	24,528,022
Tier 2 capital		
Fair value reserve	**(899,014)**	(414,606)
Qualifying subordinated liabilities	**7,781,927**	8,312,286
Total	**6,882,913**	7,897,680
Deductions from Tier 1 and Tier 2		
Investments in associates	**(30,962)**	(3,450)
Total	**(30,962)**	(3,450)
Total capital base	**34,140,450**	32,422,252
Risk weighted assets:		
On statement of financial position	**123,866,344**	107,314,413
Off statement of financial position	**32,516,110**	33,176,711
Risk weighted assets	**156,382,454**	140,491,124
Risk asset ratio	**21.83%**	23.08%

4 Financial risk management *(continued)*

(f) Capital management *(continued)*

The Group's capital adequacy ratio as per effective regulatory framework, Basel II, at a minimum level of 12% *(2010: 12%)*, is analysed into two tiers as follows:

	Basel II 2011 AED'000	Basel II 2010 AED'000
Tier 1 capital		
Ordinary share capital	**2,870,043**	2,391,703
Retained earnings	**4,385,622**	4,180,205
Statutory and special reserve	**3,563,274**	3,324,105
General reserve and share option scheme	**12,446,567**	10,560,537
Foreign currency translation reserve	**(4,646)**	(3,453)
Subordinated convertible notes - equity component	**27,639**	74,925
Government of Abu Dhabi tier 1 capital notes	**4,000,000**	4,000,000
Total	**27,288,499**	24,528,022
Tier 2 capital		
Fair value reserve	**(899,014)**	(414,606)
Qualifying subordinated liabilities	**7,781,927**	8,312,286
Allowance for collective impairment	**1,947,580**	1,892,221
Total	**8,830,493**	9,789,901
Deductions from capital		
Investments in associates and others	**(30,962)**	(76,910)
Total capital base	**36,088,030**	34,241,013
Risk weighted assets:		
Credit risk	**155,787,562**	135,961,126
Market risk	**5,582,395**	3,801,669
Operational risk	**13,411,531**	11,799,293
Risk weighted assets	**174,781,488**	151,562,088
Risk asset ratio	**20.65%**	22.59%

The Bank and its overseas branches and subsidiaries have complied with all externally imposed capital requirements for all periods presented.

5 Use of estimates and judgements

In the process of applying the Group's accounting policies, management has made the following estimates and judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty

(i) Impairment charge on loans and advances and investments

Impairment losses are evaluated as described in accounting policy 3(b) (ix).

The Group evaluates impairment on loans and advances and investments on an ongoing basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised 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 impairment charge required. In estimating these cash flows, management makes judgements about counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

(ii) Collective impairment charge

In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of loans and advances with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical and current economic conditions.

(iii) Impairment charge on property and equipment

Impairment losses are evaluated as described in accounting policy 3(j) (iii).

In determining the net realisable value, the Group uses the selling prices determined by external independent valuers companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The selling prices are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

(iv) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(v) Share option scheme

The fair value of the share option scheme is determined using the Black-Scholes model. The model inputs comprise share price, exercise price, share price volatility, contractual life of the option, dividend yield and risk-free interest rate.

5 Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Group's accounting policies include:

(a) Financial asset and liability classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets as "fair value through profit or loss", "held-to-maturity" or "available for sale", the Group has determined it meets the description as set out in accounting policy 3(b) (iii, iv and v) respectively.

(b) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging relationship.

(c) Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 3(b) (viii) and note 6.

6 Financial assets and liabilities

Fair value of financial instruments

All financial assets and liabilities are measured at amortised cost except for derivatives, trading and non-trading investments which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques such as discounted cash flow method.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

6 Financial assets and liabilities *(continued)*

Fair value of financial instruments *(continued)*

Level 3: Valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The fair values of due from banks and financial institutions, reverse repurchase agreement , due to banks and financial institutions, repurchase agreements and customers' deposits which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their book value.

The Group estimates that the fair value of its loans and advances portfolio is not materially different from its book value since majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

6 Financial assets and liabilities *(continued)*

Fair value of financial instruments *(continued)*

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2011:

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Cash and balances with central banks	-	-	-	-	-	24,468,641	**24,468,641**
Investments at fair value through profit or loss	-	1,610,745	-	-	-	-	**1,610,745**
Due from banks and financial institutions	-	-	-	-	-	15,166,763	**15,166,763**
Reverse repurchase agreements	-	-	-	-	-	16,425,020	**16,425,020**
Loans and advances	-	-	-	-	159,522,178	-	**159,522,178**
Non-trading investments	-	-	21,357,205	5,212,135	-	-	**26,569,340**
Other assets	797,258	4,808,389	-	-	-	4,054,174	**9,659,821**
	797,258	**6,419,134**	**21,357,205**	**5,212,135**	**159,522,178**	**60,114,598**	**253,422,508**
Due to banks and financial institutions	-	-	-	-	-	39,795,601	**39,795,601**
Repurchase agreements	-	-	-	-	-	3,513,726	**3,513,726**
Euro commercial paper	-	-	-	-	-	-	-
Customers' deposits	-	-	-	-	-	151,816,887	**151,816,887**
Medium-term borrowings	-	-	-	-	-	15,148,516	**15,148,516**
Other liabilities	825,668	3,958,805	-	-	-	5,743,997	**10,528,470**
Subordinated notes	-	-	-	-	-	7,990,054	**7,990,054**
	825,668	**3,958,805**	**-**	**-**	**-**	**224,008,781**	**228,793,254**

6 Financial assets and liabilities *(continued)*

Fair value of financial instruments *(continued)*

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2010:

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Cash and balances with central banks	-	-	-	-	-	18,429,827	**18,429,827**
Investments at fair value through profit or loss	-	1,292,826	-	-	-	-	**1,292,826**
Due from banks and financial institutions	-	-	-	-	-	14,764,757	**14,764,757**
Reverse repurchase agreements	-	-	-	-	-	10,898,457	**10,898,457**
Loans and advances	-	-	-	-	136,833,496	-	**136,833,496**
Non-trading investments	-	-	19,559,505	1,836,500	-	-	**21,396,005**
Other assets	465,480	1,901,770	-	-	-	3,205,601	**5,572,851**
	465,480	**3,194,596**	**19,559,505**	**1,836,500**	**136,833,496**	**47,298,642**	**209,188,219**
Due to banks and financial institutions	-	-	-	-	-	31,551,346	**31,551,346**
Repurchase agreements	-	-	-	-	-	2,542,896	**2,542,896**
Euro commercial paper	-	-	-	-	-	35,053	**35,053**
Customers' deposits	-	-	-	-	-	123,130,589	**123,130,589**
Medium-term borrowings	-	-	-	-	-	14,458,665	**14,458,665**
Other liabilities	403,141	1,629,548	-	-	-	4,808,193	**6,840,882**
Subordinated notes	-	-	-	-	-	8,312,286	**8,312,286**
	403,141	**1,629,548**	**-**	**-**	**-**	**184,839,028**	**186,871,717**

6 Financial assets and liabilities *(continued)*

Fair value of financial instruments *(continued)*

Fair value hierarchy

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
As at 31 December 2011				
Financial assets held for trading	1,610,745	-	-	**1,610,745**
Available-for-sale financial assets	16,856,573	4,476,246	24,386	**21,357,205**
Derivative financial assets	501	5,605,146	-	**5,605,647**
Derivative financial liabilities	271	4,784,202	-	**4,784,473**
	18,468,090	**14,865,594**	**24,386**	**33,358,070**
As at 31 December 2010				
Financial assets held for trading	1,292,826	-	-	**1,292,826**
Available-for-sale financial assets	14,338,227	4,802,040	419,238	**19,559,505**
Derivative financial assets	1,699	2,365,551	-	**2,367,250**
Derivative financial liabilities	787	2,031,902	-	**2,032,689**
	15,633,539	**9,199,493**	**419,238**	**25,252,270**

Certain available-for-sale investment securities have been disclosed under Level 3 of the fair value hierarchy as management has recorded these at cost in the absence of observable market data. Management has deemed cost to be a close approximation of their fair value.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3:

	2011 AED'000	2010 AED'000
Available-for-sale financial assets		
Balance as at 1 January	**419,238**	414,571
Purchases	**-**	260,281
Settlements and transfers	**(394,852)**	(255,614)
Balance as at 31 December	**24,386**	419,238

7 Cash and balances with central banks

	2011 AED'000	2010 AED'000
Cash on hand	**1,132,344**	883,438
Balances with the Central Bank of the UAE		
cash reserve deposits	**6,524,220**	5,132,293
certificates of deposits	**6,000,000**	9,800,000
other deposits and balances	**914,352**	-
Balances with other central banks		
cash reserve deposits	**1,388,580**	1,514,883
other deposits and balances	**8,509,145**	1,099,213
	24,468,641	18,429,827

Cash reserve deposits are not available for the day to day operations of the Group.

8 Investments at fair value through profit or loss

	2011 AED'000	2010 AED'000
Trading portfolio		
Managed portfolios	**570,474**	375,395
Debt and equity instruments	**1,040,271**	917,431
	1,610,745	1,292,826

9 Due from banks and financial institutions

	2011 AED'000	2010 AED'000
Current, call and notice deposits	**3,121,542**	1,904,919
Margin deposits	**284,228**	601,366
Fixed deposits	**10,370,993**	11,598,472
Wakala placements	**1,390,000**	660,000
	15,166,763	14,764,757

10 Reverse repurchase agreements

The Group enters into reverse repurchase agreements in the normal course of business in which the third party transfers financial assets to the Group for short term financing.

The carrying amount of financial assets at the reporting date amounted to AED 16,425 million *(2010: AED 10,898 million).*

No allowances for impairment have been recognised against reverse repurchase agreements during the year *(2010: nil).*

11 Loans and advances

	2011 AED'000	2010 AED'000
Gross loans and advances	**164,825,023**	140,856,201
Less: allowance for impairment	**(4,800,706)**	(3,664,081)
Less: interest suspended	**(502,139)**	(358,624)
Net loans and advances	**159,522,178**	136,833,496

An analysis of gross loans and advances by counterparty at the reporting date is shown below:

	2011 AED'000	2010 AED'000
Government sector	**17,293,055**	16,949,791
Public sector	**45,346,578**	37,698,440
Banking sector	**16,052,536**	4,236,794
Corporate / private sector	**59,288,780**	55,415,632
Personal / retail sector	**26,844,074**	26,555,544
Gross loans and advances	**164,825,023**	140,856,201

The movement in the allowance for impairment during the year is shown below:

	2011 AED'000	2010 AED'000
At 1 January	**3,664,081**	2,657,510
Charge for the year		
Collective provision	**428,376**	288,133
Specific provision	**1,291,038**	1,071,394
Recoveries	**(128,195)**	(48,962)
Write-backs during the year	**(268,939)**	(199,405)
Amounts written off	**(185,655)**	(104,589)
At 31 December	**4,800,706**	3,664,081

11 Loans and advances *(continued)*

Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

	2011 AED'000	2010 AED'000
Ijara	**6,804,114**	6,183,730
Murabaha	**611,588**	517,883
Mudaraba	**2,940**	14,699
Others	**2,533**	1,106
Total Islamic financing contracts	**7,421,175**	6,717,418
Less: allowance for impairment	**(63,290)**	(62,928)
Less: suspended profit	**(2,263)**	(3,239)
	7,355,622	6,651,251

The movement in the allowance for impairment during the year is shown below:

	2011 AED'000	2010 AED'000
Balance as at 1 January	**62,928**	56,540
Charge for the year		
Collective provision	**475**	10,321
Specific provision	**-**	213
Recoveries	**-**	-
Write-backs during the year	**(113)**	-
Amounts written off and other adjustments	**-**	(4,146)
Balance as at 31 December	**63,290**	62,928

The gross Ijara and the related present value of minimum Ijara payments are as follows:

	2011 AED'000	2010 AED'000
Gross Ijara		
Less than one year	**1,493,258**	954,259
Between one and five years	**3,796,320**	3,683,588
More than five years	**2,968,025**	3,029,182
	8,257,603	7,667,029
Less: deferred income	**(1,453,489)**	(1,483,299)
Net Ijara	**6,804,114**	6,183,730

11 Loans and advances *(continued)*

Islamic financing *(continued)*

	2011 AED'000	2010 AED'000
Net present value of minimum lease payments		
Less than one year	**1,165,508**	669,700
Between one and five years	**3,020,008**	2,870,764
More than five years	**2,618,598**	2,643,266
	6,804,114	6,183,730

12 Non-trading investments

Available-for-sale investments

	2011 AED'000	2010 AED'000
Unquoted investments	**41,098**	435,950
Less: allowance for impairment	**(16,712)**	(16,712)
	24,386	419,238
Quoted investments	**21,332,819**	19,140,267
Total available for sale investments	**21,357,205**	19,559,505

Unquoted investments comprise unquoted equity securities amounting to AED 24,095 thousand *(2010: AED 24,104 thousand)* which are carried at cost as their fair value cannot be reliably estimated. The Group does not intend to dispose of these investments in near term.

Debt instruments under repurchase agreements included in quoted available for sale investments at 31 December 2011 amounted to AED 2,067 million *(2010: AED* 2,361 *million) (note 16).*

Held-to-maturity

	2011 AED'000	2010 AED'000
Debt securities	**5,212,135**	1,836,500
Total non-trading investments	**26,569,340**	21,396,005

During the year the Group reclassified Debt securities amounting to AED 266,692 thousand *(2010: AED nil)* from available from sale investments to held to maturity as a result of such reclassification there is no impact in the profit and loss account or fair value reserve.

13 Other assets

	2011 AED'000	2010 AED'000
Interest receivable	**1,846,396**	1,210,740
Acceptances	**1,369,955**	1,295,000
Sundry debtors and other receivables	**837,823**	699,861
Deferred tax asset	**29,237**	28,499
Positive fair value of derivatives (*note 38*)	**5,605,647**	2,367,250
	9,689,058	5,601,350

14 Property and equipment

	Land, building and alterations AED'000	Computer systems and equipment AED'000	Furniture, equipment, safes and vehicles AED'000	Capital work - in progress AED'000	Total AED'000
Cost					
At 1 January 2010	1,973,685	313,632	220,856	186,199	2,694,372
Acquisitions	117,427	33,663	50,439	175,252	376,781
Transfer	100,340	20,102	1,796	(122,238)	-
Disposals / write off	(21,283)	(14,838)	(17,405)	-	(53,526)
At 31 December 2010	**2,170,169**	**352,559**	**255,686**	**239,213**	**3,017,627**
Acquisitions	49,032	39,117	33,318	204,184	325,651
Transfer	49,110	101,374	4,929	(155,413)	-
Disposals / write off	(7,220)	(3,966)	(11,961)	-	(23,147)
At 31 December 2011	**2,261,091**	**489,084**	**281,972**	**287,984**	**3,320,131**
Accumulated depreciation and impairment losses					
At 1 January 2010	334,858	172,384	139,285	-	646,527
Charge for the year	42,399	47,853	30,892	-	121,144
Disposals	(9,038)	(13,593)	(14,966)	-	(37,597)
Impairment loss (*note 34*)	77,001	-	-	-	77,001
At 31 December 2010	**445,220**	**206,644**	**155,211**	**-**	**807,075**
Charge for the year	48,847	70,067	38,363	-	157,277
Disposals	(6,181)	(2,198)	(10,975)	-	(19,354)
Impairment loss (*note 34*)	159,373	-	-	-	159,373
At 31 December 2011	**647,259**	**274,513**	**182,599**	**-**	**1,104,371**
Carrying amounts					
At 31 December 2010	1,724,949	145,915	100,475	239,213	2,210,552
At 31 December 2011	**1,613,832**	**214,571**	**99,373**	**287,984**	**2,215,760**

14 Property and equipment *(continued)*

Land, building and alteration includes plots of land for which no plans for construction have been formalised. These lands are carried at current market value which is lower than there cost.

Capital work in progress mainly comprises of properties under construction.

15 Due to banks and financial institutions

	2011 **AED'000**	2010 AED'000
Banks and financial institutions		
Current, call and notice deposits	**1,705,058**	770,406
Margin	**155,754**	-
Fixed deposits	**25,053,561**	20,893,196
Wakala deposit	**5,808,400**	4,080,000
	32,722,773	25,743,602
Central banks		
Current and call	**1,351,001**	890,608
Fixed and certificate of deposits	**5,721,827**	4,917,136
	7,072,828	5,807,744
	39,795,601	31,551,346

Due to banks and financial institutions are denominated in various currencies and carry a rate of interest in the range of 0% to 4.50% *(2010: 0% to 4.20%)*.

16 Repurchase agreements

The Group enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties.

The carrying amount of financial assets at the reporting date amounted to AED 2,067 million *(2010: AED 2,361 million) (note 12)* and their associated financial liabilities amounted to AED 3,514 million *(2010: AED 2,543 million).*

17 Euro commercial paper

The Bank established a USD 2,000,000 thousand Euro-Commercial Paper Programme (the "ECP Programme") for the issuance of Euro-commercial paper under an agreement dated 13 September 2006 with Citibank, N.A.

The notes outstanding as at the reporting date amounting AED nil *(2010: AED 35 million denominated in SGD carrying 1.01% and maturing less than 12 months)*.

18 Customers' deposits

	2011	2010
	AED'000	AED'000
By account:		
Current accounts	**32,150,382**	28,195,567
Savings accounts	**6,814,788**	5,151,931
Notice and time deposits	**105,288,051**	84,877,678
Certificates of deposit	**7,563,666**	4,905,413
	151,816,887	123,130,589

	2011	2010
	AED'000	AED'000
By sector:		
Government sector	**46,594,553**	32,090,292
Public sector	**26,077,291**	22,140,648
Corporate / private sector	**45,909,760**	41,644,916
Retail sector	**33,235,283**	27,254,733
	151,816,887	123,130,589

During the year 2010 special deposits amounting to AED 5,606 million received from the UAE Ministry of Finance with original contractual maturities of 3 and 5 years were converted into Tier 2 notes maturing in December 2016 *(see note 21)*.

	2011	2010
	AED'000	AED'000
By location:		
UAE	**101,848,077**	81,016,731
Europe	**19,803,853**	11,142,665
Arab countries	**20,074,335**	24,257,788
America	**3,994,167**	2,233,659
Asia	**4,724,381**	2,812,894
Others	**1,372,074**	1,666,852
	151,816,887	123,130,589

Islamic customers' deposits

Included in the above customers' deposits are the following Islamic customer deposits:

	2011	2010
	AED'000	AED'000
Wakala deposits	**2,769,106**	1,949,307
Mudaraba deposit	**146,285**	140,961
	2,915,391	2,090,268

19 Medium-term borrowings

	2011 AED'000	2010 AED'000
Club loan and other facilities	**3,489,350**	3,489,350
Medium term notes	**11,659,166**	10,969,315
	15,148,516	14,458,665

The following medium term notes are outstanding at 31 December:

Currency	Interest	Year of maturity	2011 AED'000	2010 AED'000
GBP	5.875 per cent (fixed)	Feb 2012	**2,010,313**	2,080,706
EUR	3M EURIBOR + step-up spread	Jun 2012	**166,569**	168,671
EUR	3M EURIBOR + step-up spread	Jul 2012	**556,815**	563,842
USD	3M USD LIBOR + 120bps	Oct 2012	**77,808**	73,570
HKD	1.65 per cent (fixed)	Oct 2013	**89,088**	87,702
USD	4.5 per cent (fixed)	Sep 2014	**3,270,204**	3,229,021
HKD	3.8 per cent (fixed)	Sep 2014	**197,718**	194,713
HKD	3.9 per cent (fixed)	Oct 2014	**121,063**	119,055
USD	4.25 per cent (fixed)	Mar 2015	**2,892,966**	2,818,543
MYR	4.75 per cent (fixed)	Jun 2015	**573,449**	577,830
HKD	3.40 per cent (fixed)	Sep 2017	**152,752**	141,605
USD	3.71 per cent (fixed)	Sep 2017	**113,829**	104,732
HKD	4.32 per cent (fixed)	Sep 2017	**155,508**	145,857
HKD	4.45 per cent (fixed)	Sep 2019	**165,833**	150,844
MYR	4.90 per cent (fixed)	Dec 2020	**549,922**	512,624
JPY	2.60 per cent (fixed)	Jul 2026	**491,869**	-
USD	4.80 per cent (fixed)	Sep 2036	**73,460**	-
			11,659,166	10,969,315

The Group has not had any defaults of principal, interests, or other breaches with respect to its medium term borrowings during 2011 and 2010.

20 Other liabilities

	2011 AED'000	2010 AED'000
Interest payable	**1,368,526**	941,507
Acceptances	**1,331,543**	1,290,312
Provision for staff terminal benefits	**421,146**	388,320
Accounts payable, sundry creditors and other liabilities	**3,043,928**	2,576,374
Negative fair value of derivatives *(note 38)*	**4,784,473**	2,032,689
Overseas income tax	**63,620**	53,817
	11,013,236	7,283,019

20 Other liabilities *(continued)*

The movement in the provision for employees' staff terminal benefits was as follows:

	2011 AED'000	2010 AED'000
Balance at 1 January	**388,320**	379,531
Provided during the year	**77,659**	72,821
Paid during the year	**(44,833)**	(64,032)
Balance at 31 December	**421,146**	388,320

The Group has provided for overseas income tax in accordance with management's estimate of the total amount payable based on tax rates enacted or substantially enacted as at the reporting date. Where appropriate the Group has made payments of tax on account in respect of these estimated liabilities.

The overseas income tax charge for the year is calculated based upon the adjusted net profit for the year. The movement in the provision was as follows:

	2011 AED'000	2010 AED'000
At 1 January	**53,817**	62,309
Charge for the year *(note 35)*	**111,624**	88,291
Overseas income tax paid, net of recoveries	**(101,821)**	(96,783)
At 31 December	**63,620**	53,817

21 Subordinated notes

	2011 AED'000	2010 AED'000
Subordinated note – Ministry of Finance Tier 2 notes	**5,912,647**	5,626,908
Subordinated notes	**2,077,407**	2,685,378
	7,990,054	8,312,286

Ministry of Finance Tier 2 notes

The notes maturing in December 2016 carry a fixed step up coupon and are paid quarterly in arrears. The bank has hedged the interest rate exposure on these notes.

21 Subordinated notes *(continued)*

	2011 AED'000	2010 AED'000
Liability component		
15 March 2006 issue	**1,040,632**	1,099,672
28 February 2008 issue	**1,036,775**	1,585,706
	2,077,407	2,685,378
Equity component		
15 March 2006 issue	**72,926**	72,926
28 February 2008 issue	**52,984**	52,984
Less: conversion of 15 March 2006 issue	**(40,502)**	(40,502)
Less: Buy back of 28 February 2008 issue	**(25,345)**	(10,483)
Transfer to general reserve	**(32,424)**	-
	27,639	74,925

15 March 2006 issue:

The Bank issued AED 2.5 billion subordinated convertible notes due on 15 March 2016 in accordance with the approval of the Extraordinary General Meeting held on 22 November 2005. The notes bear an interest rate equal to 3 month EBOR plus 0.25% paid quarterly.

During the year, the conversion option for 15 March 2006 issue expired, accordingly, the equity component of AED 32,424 thousand related to this issue was transferred to general reserve.

Further during the year, the Bank purchased back AED 62,000 thousand *(2010: AED nil)* of this issue from the market for AED 54,405 thousand *(2010: AED nil).* As a result, the total outstanding liability components were decreased by AED 60,191 thousand *(2010: AED nil)*. Further, a gain on the extinguishment in the amount of AED 7,022 thousand *(2010: AED nil)* was recognised in the consolidated income statement.

The above mentioned notes are presented in the consolidated statement of financial position as follows:

	2011 AED'000	2010 AED'000
Proceeds from issue of convertible notes	**2,500,000**	2,500,000
Less: amount classified as equity	**(72,926)**	(72,926)
Carrying amount of liability component on initial recognition	**2,427,074**	2,427,074
Add: cumulative accreted interest	**21,722**	20,571
Less: converted liability component	**(1,347,973)**	(1,347,973)
Carrying amount of liability bought back	**(60,191)**	-
Carrying amount of liability component	**1,040,632**	1,099,672

Interest on these notes is calculated on an effective yield basis by applying the effective interest rate for an equivalent non-convertible notes to the liability component of the convertible notes. The effective interest rate as at 31 December 2011 was 1.811% *(2010: 2.34%).*

21 Subordinated notes *(continued)*

28 February 2008 issue:

Further, on 28 February 2008, the Bank issued AED 2 billion subordinated convertible notes due on 28 February 2018 in accordance with the approval of the Extraordinary General Meeting held on 5 September 2007. The notes bear an interest rate equal to 3 month EBOR less 0.25% paid quarterly.

These convertible notes are presented in the consolidated statement of financial position as follows:

	2011 **AED'000**	2010 AED'000
Proceeds from issue of convertible notes	**2,000,000**	2,000,000
Less: amount classified as equity	**(52,984)**	(52,984)
Carrying amount of liability component on initial recognition	**1,947,016**	1,947,016
Add: cumulative accreted interest	**21,124**	23,916
Carrying amount of liability bought back	**(931,365)**	(385,226)
Carrying amount of liability component	**1,036,775**	1,585,706

Interest on these notes is calculated on an effective yield basis by applying the effective interest rate for equivalent non-convertible notes to the liability component of the convertible notes. The effective interest rate as at 31 December 2011 was 1.384% *(2010: 2.02%)*.

At the option of the holder, the notes may be converted into ordinary shares of the Bank at any time during the period beginning from 28 May 2008 and ending on the date falling 10 trading days prior to the first call date being 28 February 2013 at the conversion price of AED 17.41 per ordinary share (subsequent to the issue of bonus shares). The Bank has the option to redeem these notes on the first call date being 28 February 2013.

The subordinated convertible notes form part of Tier II capital of the Bank.

During the year, the Bank purchased back AED 561,000 thousand *(2010: AED 181,710 thousand)* of this issue from the market for AED 536,930 thousand *(2010: AED 154,478 thousand)*. As a result, the total outstanding liability and equity components were decreased by AED 546,139 thousand *(2010: AED 175,922 thousand)* and AED 14,862 thousand, *(2010: AED 4,787 thousand)* respectively. Further, a gain on the extinguishment in the amount of AED 26,068 thousand *(2010: AED 26,669 thousand)* was recognised in the consolidated income statement.

Fair value

The carrying amount of the liability component of the convertible notes reflects its current fair value based on discounted cash flows.

The Group has not had any defaults of principal, interests, or other breaches with respect to its subordinated convertible notes during 2011 and 2010.

22 Capital and reserves

Share capital
The authorised share capital of the Bank comprise 2,870 million ordinary shares of AED 1 each *(2010: 2,392 million shares of AED 1 each)*. The issued and fully paid share capital at 31 December 2011 is comprised of 2,870 million of AED 1 each *(2010: 2,392 million ordinary shares of AED 1 each)*.

Statutory reserve
The UAE Commercial Companies Law No. (8) of 1984 (as amended) and Article 56 of the Bank's Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution to the shareholders.

Special reserve
Transfers to the special reserve are made in accordance with Union Law No. 10 of 1980 and Article 56 of the Bank's Articles of Association under which not less than 10% of the annual net profit is to be transferred to this reserve until it equals 50% of the paid-up share capital. The special reserve is not available for distribution to the shareholders.

Dividends
The following cash dividend was paid by the Group during the year ended 31 December:

	2011	2010
	AED'000	AED'000
Cash dividend AED 0.3 per ordinary share *(2010: 0.1)*	**717,511**	217,428
20 % bonus shares *(2010: 10% bonus shares)* issued	**478,340**	217,428

Proposed dividends:
On 31 January 2012, a cash dividend of AED 0.3 per ordinary share and bonus shares of 30 % *(2010: AED 0.3 cash dividend per ordinary share and 20% bonus share)* was proposed by the Board of Directors in respect of 2011 which is subject to the approval of the shareholders at the Annual General Meeting.

22 Capital and reserves *(continued)*

Other reserves
Other reserves include the following:

(i) General reserve
The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors to the shareholders. On 13 March 2011 the AGM approved the transfer of AED 2.3 billion *(2010: AED 2.1 billion)* to general reserve.

(ii) Fair value reserve
The fair value reserve includes the cumulative net change in the fair value of non-trading investments, until the investment is derecognised or impaired, and cash flow hedge reserve.

	2011 AED'000	2010 AED'000
Revaluation reserve – available for sale investments		
At 1 January	**(414,606)**	(841,388)
(Increase) / decrease in unrealised losses during the year	**(675,949)**	326,288
Net realised losses recognised in the consolidated income statement during the year	**174,317**	100,494
At 31 December	**(916,238)**	(414,606)
Hedging reserve – cash flow hedge		
At 1 January	**-**	(3,835)
Changes in fair value	**17,224**	3,835
At 31 December	**17,224**	-
Total at 31 December	**(899,014)**	(414,606)

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

(iii) Foreign currency translation reserve
Foreign currency translation reserve represents the exchange differences arising from translation of the net investment in foreign operations.

23 Government of Abu Dhabi Tier 1 capital notes

Under the Government of Abu Dhabi 2009 Bank capitalisation programme, the Bank issued regulatory Tier 1 capital notes (the "Notes") in the amount of AED 4 billion. The Notes are perpetual, subordinated, unsecured and carry a fixed coupon during the initial period and are paid semi annually in arrears. After the initial period, the Notes attract a coupon rate of 6 month EIBOR plus a fixed margin. The Bank may elect not to pay a coupon at its own discretion. The note holder does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default.

The issuance was approved in the shareholders Extra Ordinary General Meeting held on 11 March 2009. During the year, a coupon payment election was made by the Bank in the amount of AED 240 million *(2010: AED 240 million)*.

24 Share option scheme

The Bank introduced in 2008 a share based payment scheme (the "Scheme") for selected employees which would vest over three years and can be exercised within the three years after the vesting period.

During the year, in continuation with the existing staff share option scheme, the Bank has granted a new tranche of 17,050 thousand options *(2010: 4,839 thousand options)* to eligible employees.

Each option is generally subject to a 3 year vesting period and 3 year exercise period. The key vesting condition is that the option holder is in continued employment with NBAD on the date of vesting. The options lapse six years after their date of grant irrespective of whether they are exercised or not.

The numbers of share options are as follows:

	2011 Number of options in thousands	2010 Number of options in thousands
Outstanding at 1 January	**23,730**	19,666
Forfeited during the year	**(1,256)**	(775)
Exercised during the year	**-**	-
Granted during the year	**17,050**	4,839
Outstanding at 31 December	**39,524**	23,730

As a result of the issue of bonus shares, the exercise price was revised on 13 March 2011 from AED15.55 to AED 12.95 per share *(2010: AED 17.28 to AED 15.55).* All the options outstanding as at 31 December 2011 have an exercise price of AED 12.95 *(2010: AED 15.55)*.

25 Interest income

	2011 AED'000	2010 AED'000
Interest from		
Central banks	**71,574**	78,562
Banks and financial institutions	**607,188**	359,247
Reverse repurchase agreements	**94,341**	24,393
Investments at fair value through profit or loss	**8,326**	13,614
Non-trading investments	**972,069**	857,762
Loans and advances	**5,898,288**	5,813,280
	7,651,786	7,146,858

26 Interest expense

	2011 AED'000	2010 AED'000
Interest to		
Banks and financial institutions	**271,272**	205,751
Repurchase agreements	**19,628**	19,100
Euro commercial paper	**138**	221
Customers' deposits	**912,743**	993,518
Certificates of deposit	**115,935**	103,930
Medium-term borrowings	**511,339**	464,444
Subordinated notes	**325,483**	342,281
	2,156,538	2,129,245

27 Income from Islamic financing contracts

	2011 AED'000	2010 AED'000
Ijara	**300,418**	245,073
Murabaha	**61,905**	37,790
Mudaraba	**488**	362
	362,811	283,225

28 Depositors' share of profits

	2011 AED'000	2010 AED'000
Wakala Deposit	**52,164**	49,599
Mudaraba Deposit	**3,001**	2,399
	55,165	51,998

29 Net fee and commission income

	2011 AED'000	2010 AED'000
Fee and commission income		
Letters of credit	**174,261**	146,254
Letters of guarantee	**237,240**	223,890
Brokerage income, net	**16,170**	22,083
Initial Public Offerings (IPO)	**2,436**	879
Asset management and investment services	**111,337**	109,606
Risk participation fees	**105,988**	61,564
Retail and corporate lending fees	**752,721**	659,990
Low credit balance fees	**19,908**	26,053
Commission on transfers	**32,456**	33,262
Others	**183,428**	176,997
Total fee and commission income	**1,635,945**	1,460,578
Fee and commission expense		
Brokerage commission	**15,314**	12,303
Handling charges	**4,508**	4,309
Credit card charges	**174,099**	102,995
Other commission	**51,205**	56,920
Total fee and commission expense	**245,126**	176,527
Net fee and commission income	**1,390,819**	1,284,051

Asset management and investment service fees include fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

30 Net gain on investments

	2011 **AED'000**	2010 AED'000
Net realised and unrealised (loss) / gains on investments at fair value through profit or loss and derivatives	**(83,066)**	176,550
Net gain from sale of non-trading investments	**174,317**	122,479
Dividend income	**2,289**	2,191
	93,540	301,220

Interest income on debt instruments classified as investments at fair value through profit or loss as well as debt instruments classified as non-trading investments is presented within interest income.

31 Net foreign exchange gain

	2011 **AED'000**	2010 AED'000
Trading and retranslation gain / (loss) on foreign exchange and related derivatives	**98,698**	(38,278)
Dealings with customers	**423,533**	312,169
	522,231	273,891

32 Other operating income

	2011 **AED'000**	2010 AED'000
Gain on buy back of issued convertible notes	**33,090**	26,669
Others	**38,288**	43,863
	71,378	70,532

33 General, administration and other operating expenses

	2011	2010
	AED'000	AED'000
Staff costs	**1,716,380**	1,495,821
Other general and administration expenses	**639,799**	534,248
Depreciation	**157,277**	121,144
Donations and charity	**50,268**	34,789
	2,563,724	2,186,002

34 Net impairment charge

	2011	2010
	AED'000	AED'000
Collective provision for loans and advances *(note 11)*	**428,376**	288,133
Specific provision for loans and advances *(note 11)*	**1,291,038**	1,071,394
Write back of provisions for loans and advances *(note 11)*	**(268,939)**	(199,405)
Recovery of loan loss provisions *(note 11)*	**(128,195)**	(48,962)
Write-off of impaired loans and advances to consolidated income statement	**19,133**	4,672
Recovery of loans previously written off	**(2,231)**	(2,315)
Provisions for investment	**-**	16,253
Impairment of non financial assets* (note 14)	**159,373**	77,001
	1,498,555	1,206,771

*During the year the Group modified the assumption in its value in use working revaluation for a certain property held for own use, the modification resulted in an additional impairment charge of AED 159,373 thousand *(2010: AED 77,001 thousand) (note 5 (iii)).*

35 Overseas income tax expense

In addition to adjustments relating to deferred taxation, the charge for the year is calculated based upon the adjusted net profit for the year at rates of tax applicable in respective overseas locations.

The charge to the consolidated income statement for the year was as follows:

	2011 **AED'000**	2010 AED'000
Charge for the year *(note 20)*	**111,624**	88,291
Adjustments relating to deferred taxation	**(588)**	14,311
	111,036	102,602

36 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts maturing within three months of the date of the acquisition / placement:

	2011 **AED'000**	2010 AED'000
Cash and balances with central banks	**20,332,004**	11,548,833
Due from banks and financial institutions	**9,657,573**	9,427,746
Cash and cash equivalents	**29,989,577**	20,976,579

37 Commitments and contingencies

	2011 **AED'000**	2010 AED'000
Letters of credit	**32,279,658**	36,744,734
Letters of guarantee	**45,411,893**	47,854,797
Undrawn commitments to extend credit	**20,873,395**	24,364,556
Financial guarantees	**11,564,783**	10,066,405
	110,129,729	119,030,492

Capital and operating lease commitments at the reporting date is shown below:

	2011 **AED'000**	2010 AED'000
Commitments for future capital expenditure	**89,573**	55,179
Commitments for future operating lease payments for premises	**164,785**	150,981
	254,358	206,160
Total commitments and contingencies	**110,384,087**	119,236,652

37 Commitments and contingencies *(continued)*

Letters of credit and guarantee commit the Group to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to extend loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Commitments for operating lease payments are payable as follows:

	2011 **AED'000**	2010 AED'000
Less than one year	**51,246**	43,042
Between one and five year	**90,811**	85,409
More than five year	**22,728**	22,530
Total commitments	**164,785**	150,981

Financial guarantees contracts included credit default agreements entered with banks and financial institutions amounting to AED 8,845 million *(2010: AED 6,439 million)* which are primarily denominated in US dollar.

Concentration by location:

	2011 **AED'000**	2010 AED'000
UAE	**367,300**	1,707,945
Europe	**2,093,610**	954,980
Arab countries	**139,574**	727,254
America	**293,840**	385,665
Asia	**4,536,155**	2,589,465
Others	**1,414,105**	73,460
	8,844,584	6,438,769

38 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments include forwards, futures, swaps and options. These transactions are primarily entered with Banks and financial institutions.

Forwards and futures contracts are commitments to either purchase or sell foreign currencies, commodities or financial instruments at a specified future date for a specified price.

Swaps are the agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Group are interest rate swaps and cross currency swaps.

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 fixed future date or at any time within a specified period.

Derivatives are measured at fair value by reference to published price quotations in an active market or counterparty prices or valuation techniques such as discounted cash flows.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to their fair values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying, 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.

38 Derivative financial instruments *(continued)*

31 December 2011

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Notional amounts by term to maturity: Less than three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000
Held for trading:								
Interest rate swaps	3,104,434	2,784,338	**206,641,368**	21,092,254	39,295,128	60,286,017	47,472,586	38,495,383
Cross currency interest rate swap	27,673	26,800	**621,741**	585,231	-	36,510	-	-
Currency swap	828,985	323,578	**149,933,619**	101,180,092	44,591,113	4,162,414	-	-
Bond option	-	-	**-**	-	-	-	-	-
Forward purchase of securities and Interest rate future	501	271	**243,137**	243,137	-	-	-	-
Forward rate agreements	-	3,856	**3,862,251**	-	3,862,251	-	-	-
Structured product	351,097	348,285	**13,643,383**	-	3,189,032	4,867,420	797,208	4,789,723
Currency options and foreign exchange forwards	495,699	471,677	**6,825,996**	4,019,744	1,844,931	961,321	-	-
Credit default swaps	-	-	**297,196**	-	55,095	242,101	-	-
	4,808,389	**3,958,805**	**382,068,691**	**127,120,458**	**92,837,550**	**70,555,783**	**48,269,794**	**43,285,106**
Held as fair value hedges:								
Interest rate swaps	644,265	734,168	**20,080,137**	4,155,065	3,255,211	4,160,727	8,361,136	147,998
Cross currency interest rate swaps	130,068	81,200	**10,734,330**	990,048	404,728	2,553,177	846,665	5,939,712
Total return swaps	-	-	**15,256**	15,256	-	-	-	-
Forward rate agreement	-	4,599	**367,300**	-	-	367,300	-	-
	774,333	**819,967**	**31,197,023**	**5,160,369**	**3,659,939**	**7,081,204**	**9,207,801**	**6,087,710**
Held as cash flow hedges:								
Interest rate swaps	23	-	**35,652**	-	-	-	-	35,652
Currency options and foreign exchange forwards	2,227	5,701	**5,538,492**	2,636,087	2,902,405	-	-	-
Cross currency interest rate swaps	20,675	-	**331,041**	-	-	-	-	331,041
	22,925	**5,701**	**5,905,185**	**2,636,087**	**2,902,405**	**-**	**-**	**366,693**
Total	**5,605,647**	**4,784,473**	**419,170,899**	**134,916,914**	**99,399,894**	**77,636,987**	**57,477,595**	**49,739,509**

38 Derivative financial instruments *(continued)*

31 December 2010

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Notional amounts by term to maturity: Less than three months AED'000	From three months to one year AED'000	From one year to three years AED'000	From three years to five years AED'000	Over five years AED'000
Held for trading:								
Interest rate swaps	1,120,006	974,412	**108,969,793**	13,430,127	23,178,385	29,772,892	17,505,535	25,082,854
Cross currency interest rate swap	385,884	388,155	**4,437,549**	-	4,437,549	-	-	-
Currency swap	-	-	**-**	-	-	-	-	-
Bond option	271	331	**29,440,210**	29,440,210	-	-	-	-
Forward purchase of securities and Interest rate future	1,428	456	**9,638,099**	9,638,099	-	-	-	-
Structured product	263,892	263,892	**24,894,053**	-	-	21,882,400	223,700	2,787,953
Currency options and foreign exchange forwards	130,289	2,302	**108,528,148**	69,025,534	34,826,965	4,405,869	269,780	-
Credit default swaps	-	-	**-**	-	-	-	-	-
	1,901,770	**1,629,548**	**285,907,852**	**121,533,970**	**62,442,899**	**56,061,161**	**17,999,015**	**27,870,807**
Held as fair value hedges:								
Interest rate swaps	450,705	311,284	**20,009,247**	-	2,175,103	5,509,173	7,110,021	5,214,950
Cross currency interest rate swaps	14,775	91,857	**4,321,327**	-	80,334	398,070	1,771,666	2,071,257
Total return swaps	-	-	**13,752**	13,752	-	-	-	-
Forward rate agreement	-	-	-	-	-	-	-	-
	465,480	**403,141**	**24,344,326**	**13,752**	**2,255,437**	**5,907,243**	**8,881,687**	**7,286,207**
Held as cash flow hedges:								
Interest rate swaps	-	-	**-**	-	-	-	-	-
Currency options and foreign exchange forwards	-	-	**-**	-	-	-	-	-
Cross currency interest rate swaps	-	-	**-**	-	-	-	-	-
	-	-	**-**	-	-	-	-	-
Total	**2,367,250**	**2,032,689**	**310,252,178**	**121,547,722**	**64,698,336**	**61,968,404**	**26,880,702**	**35,157,014**

38 Derivative financial instruments *(continued)*

The positive / negative fair value in respect of derivatives represents the gain / loss respectively, arising on fair valuation of the hedging instrument. These amounts are not indicative of any current or future losses, as a similar positive / negative amount has been adjusted to the carrying value of the hedged loans and advances and non-trading investments.

Derivatives held for trading

The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and credit risks. The instruments used mainly include interest rate and currency swaps and forward contracts. The fair values of those derivatives are shown in the table above.

Derivatives held as fair value hedge

The Group uses interest rate swaps, to hedge against the changes in fair value arising from specifically identified interest bearing assets such as loans and advances, non-trading investments, medium term borrowings and subordinate note. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

Derivatives held as cash flow hedge

The Group uses cross-currency interest rate swaps and non deliverable forward contract to hedge the foreign currency and interest rate risk arising from its financial instruments and for highly probable forecasted transactions. The Group has substantially matched the critical terms of the cross-currency swaps to have an effective hedge relationship.

39 Related parties

Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personal of the Group. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

Parent and ultimate controlling party

Pursuant to the provisions of Law No. 16 of 2006, Abu Dhabi Investment Council (the “Council”) was established which holds 70.48% of the share capital of the Bank.

Compensation of directors and key management personnel

	2011	2010
	AED’000	AED’000
Key management compensation		
Short term employment benefits	**61,435**	49,140
Post employment benefits	**1,358**	1,241
Termination benefits	**1,512**	1,313

39 Related parties *(continued)*

Compensation of directors and key management personnel *(continued)*

	2011 AED'000	2010 AED'000
Directors' remuneration	**5,450**	4,950

During the year, a coupon payment election was made by the Bank in relation to Government of Abu Dhabi Tier 1 capital notes in the amount of AED 240 million *(2010: AED 240 million).*

Terms and conditions

Loans and deposits are granted and accepted in various currency denominations and for various time periods. Interest rates earned on such loans and advances extended to related parties during the year have ranged from 0.05% to 7% per annum *(2010:1% to 18% per annum)* and interest rates incurred on customers' deposits placed by related parties during the year have ranged from nil (non-interest bearing accounts) to 4.5% per annum *(2010: nil (non interest bearing accounts) to 2% per annum)*.

Fees and commissions earned on transactions with related parties during the year have ranged from 0.50% to 1.00 % *(2010: 0.50% to 1.00%)*.

Collaterals against lending to related parties range from being unsecured to fully secure.

Balances

Balances with related parties at the reporting date are shown below:

	Directors and key management AED'000	**Major shareholder AED'000**	**Others AED'000**	**2011 Total AED'000**	2010 Total AED'000
Loans and advances	**894,349**	**578,400**	**48,834,971**	**50,307,720**	39,961,039
Customers' deposits	**423,444**	**68,742**	**47,494,737**	**47,986,923**	33,274,617
Contingent liabilities	**616,666**	**211,320**	**26,676,259**	**27,504,245**	55,199,418

Others comprise Government of Abu Dhabi entities.

39 Related parties *(continued)*

Transactions

Transactions carried out during the year with related parties are shown below:

	Directors and key management AED'000	**Major shareholder AED'000**	**Others AED'000**	**2011 Total AED'000**	2010 Total AED'000
Fee and commission income	**5,034**	**2,002**	**16,751**	**23,787**	35,934
Interest income	**31,293**	**29,488**	**996,106**	**1,056,887**	1,231,993
Interest expense	**2,015**	**1,050**	**205,825**	**208,890**	436,809

No allowances for impairment have been recognised against loans and advances extended to related parties or contingent liabilities issued in favour of related parties during the year *(2010: AED nil)*.

Due to the pervasiveness of the ultimate controlling party and related concerns, it is impractical to fully disclose related party transactions as described by International Accounting Standard 24.

40 Segmental information

The Group is structured into the following seven major business segments, which form the basis on which the primary segment information is reported:

- *Domestic Banking*
  The Domestic Banking Division (''DBD'') is responsible for three major customer segments together with the associated operations and administration. The DBD is structured on the basis of the Issuer's customer segments and the differing needs of the Issuer's broad customer base. The DBD comprises of three segments: Consumer Banking, Business Banking group and Elite Banking.

- *International Banking*
  The International Banking Division (''IBD'') manages the overseas banking network and credit derivative book. It primarily comprises of both Arab world banking (which includes the Issuer's networks in Bahrain, Egypt, Oman, Kuwait, Jordan, Sudan and Libya) and international banking (which includes the Issuer's operations in France, Malaysia, Hong Kong , the United Kingdom and the United States of America);

40 Segmental information *(continued)*

- *Financial Markets*
  The Financial Markets Division (''FMD'') is the Group's key access point to the markets globally, it also ensures the liquidity for the entire Group. FMD currently operates through Liquidity management and Interest rate group, Trading and investment group and Institutional Coverage and primary market, Corporate coverage and Ecommerce group.

- *Corporate and Investment Banking*
  Corporate and Investment Banking Division (''CIBD'') provides corporate and investment clients with strategic advice and bespoke innovative solutions. The CIBD comprises six business units: Corporate Banking Group, Investment Banking Group, Wholesale Banking Group, Abu Dhabi National Leasing LLC, Abu Dhabi National Properties and Special asset advisory.

- *Global Wealth*
  Global Wealth comprises Private Banking, Asset Management Group (which includes local and global funds as well as discretionary portfolio management), Custody and Business development and the Banks wholly-owned stockbroker Abu Dhabi Financial Services and Abu Dhabi Brokerage Company Egypt.

- *Islamic Business*
  Islamic Banking comprises Abu Dhabi National Islamic Finance and the Issuer's Islamic Division.

- *Head Office*
  The Group provides centralised human resources, information technology, finance, investor relations, risk management, corporate communications, property, legal, internal audit, collective provisions, operations and administrative support to all of its businesses units. The Head Office, which is run like a business, manages the Groups' free capital.

The accounting policies of the reportable segments are the same as described in notes 2 and 3. Transactions between segments, and between branches within a segment, are conducted at estimated market rates on rates agreed by management. Interest is charged or credited to branches and business segments either at contracted or pool rates, both of which approximate the replacement cost of funds.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before taxation, as included in the internal management reports that are reviewed by the Group's Chief Executive. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

40 Segmental information *(continued)*

	Domestic Banking AED'000	Int'l Banking AED'000	Financial Markets AED'000	Corporate & Investment Banking AED'000	Global Wealth AED'000	Islamic Business AED'000	Head office AED'000	Total AED'000
As at and for the year ended 31 December 2011:								
Operating income	1,855,907	1,139,436	985,611	2,746,823	242,760	240,335	669,990	**7,880,862**
Net impairment charge	208,757	115,219	-	589,906	5,509	362	578,802	**1,498,555**
Profit / (loss) before taxation	862,046	626,150	845,133	1,933,174	59,900	158,955	(666,775)	**3,818,583**
Overseas taxation	-	108,065	-	-	2,971	-	-	**111,036**
Net profit / (loss) for the year	862,046	518,085	845,133	1,933,174	56,929	158,955	(666,775)	**3,707,547**
Segment total assets	38,161,060	53,882,988	81,032,958	101,818,967	7,721,189	9,933,120	51,334,172	**343,884,454**
Inter segment balances								**(88,216,949)**
Total assets								**255,667,505**
Segment total liability	37,278,142	51,140,937	81,000,396	99,637,619	7,258,254	9,355,964	31,823,657	**317,494,969**
Inter segment balances								**(88,216,949)**
Total liability								**229,278,020**

Note: Except for Islamic subsidiary the collective provisions of the Group's United Arab Emirates operations are recognised centrally in the Head office accounts and are not allocated to the business units.

40 Segmental information *(continued)*

	Domestic Banking AED'000	Int'l Banking AED'000	Financial Markets AED'000	Corporate & Investment Banking AED'000	Global Wealth AED'000	Islamic Business AED'000	Head office AED'000	Total AED'000
As at and for the year ended 31 December 2010:								
Operating income	1,760,529	942,179	822,881	2,682,586	174,324	158,238	637,797	**7,178,534**
Net impairment charge	(211,848)	(65,856)	-	(558,486)	(3,292)	(1,735)	(365,554)	**(1,206,771)**
Profit / (loss) before taxation	918,808	522,486	711,738	1,915,358	8,176	94,042	(384,847)	**3,785,761**
Overseas taxation	-	(102,497)	-	-	(105)	-	-	**(102,602)**
Net profit / (loss) for the year	918,808	419,989	711,738	1,915,358	8,071	94,042	(384,847)	**3,683,159**
Segment total assets	34,185,356	36,213,902	76,507,849	92,910,356	4,958,051	7,684,765	38,723,929	**291,184,208**
Inter segment balances								**(79,756,938)**
Total assets								**211,427,270**
Segment total liability	33,260,991	33,828,723	76,029,081	91,095,413	4,528,958	7,269,658	21,057,968	**267,070,792**
Inter segment balances								**(79,756,938)**
Total liability								**187,313,854**

Note: Except for Islamic subsidiary the collective provisions of the Group's United Arab Emirates operations are recognised centrally in the Head office accounts and are not allocated to the business units.

41 Earnings per share

Earnings per share is calculated by dividing the net profit for the year after deduction of Tier 1 capital notes payment by the weighted average number of ordinary shares in issue during the year as set out below:

	2011	2010
Basic earnings per share:		
Net profit for the year (AED'000)	**3,707,547**	3,683,159
Less: Payment on Tier 1 capital notes (AED'000)	**(240,000)**	(240,000)
Net profit after payment of Tier 1 capital notes (AED'000)	**3,467,547**	3,443,159
Weighted average number of ordinary shares:		
Ordinary shares as at 1 January of the year ('000s)	**2,391,703**	2,174,275
Effect of bonus shares issued during 2011 ('000s)	**478,340**	478,340
Effect of bonus shares issued during 2010 ('000s)	**-**	217,428
Weighted average number of ordinary shares ('000s)	**2,870,043**	2,870,043
Basic earnings per share (AED)	**1.21**	1.20
Diluted earnings per share:		
Net profit after payment of Tier 1 capital notes (AED'000)	**3,467,547**	3,443,159
Add: Interest on subordinated convertible notes (AED'000)	**32,635**	72,279
Net profit for the year for calculating diluted earnings per share (AED'000)	**3,500,182**	3,515,438
Weighted average number of ordinary shares ('000s)	**2,870,043**	2,870,043
Effect of dilutive potential ordinary shares issued ('000s)	**79,146**	153,554
Weighted average number of ordinary shares in issue for diluted earnings per share ('000s)	**2,949,189**	3,023,597
Diluted earnings per share (AED)	**1.19**	1.16

42 Fiduciary activities

The Group held assets in trust or in a fiduciary capacity for its customers at 31 December 2011 amounting to AED 2,553 million *(2010: AED 3,087 million)*. Furthermore, the Group provides custodian services for some of its customers.

The underlying assets held in a custodial or fiduciary capacity are excluded from the consolidated financial statements of the Group.

43 Special Purpose Entities

The Group has created Special Purpose Entities (SPEs) with defined objectives to carry on fund management and investment activities on behalf of customers. The equity and investments managed by the SPEs are not controlled by the Group and the Group does not obtain benefits from the SPEs' operations, apart from commissions and fee income. In addition, the Group does not provide any guarantees or assume any liabilities of these entities. Consequently, the SPEs' assets, liabilities and results of operations are not included in the consolidated financial statements of the Group. The SPEs are as follows:

Legal name	**Activities**	**Country of incorporation**	**Holding 2011**
NBAD Nominees Limited	Shares registration	England	100%
NBAD Fund Managers (Guernsey) Limited	Equity/Asset Management	Bailiwick of Guernsey	100%
NBAD Global Growth Fund PCC Limited	Equity/Asset Management	Bailiwick of Guernsey	100%
One share PLC	Investment Company	Republic of Ireland	100%
NBAD Private Equity 1	Fund Management	Cayman Island	57.14%
NBAD Deucalion Investment Manager Limited	Fund Management	Cayman Island	50%

44 Comparative figures

Comparative figures have been reclassified to conform with the presentation for the current year.